

# FINANCIAL TIMES

Europe's Business Newspaper

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## Tories' European allies insist on federal stance

Conservative allies in the European parliament are insisting on committing British Tory MEPs to a federalist stance after June's European elections a demand that will deepen Tory difficulties over Europe. Britain's Conservative leaders have distanced their party from the federalist manifesto of the European People's party, but EPP chief Thomas Jansen said the manifesto would be binding on elected MEPs, apart from items on which Britain secured an opt-out from the Maastricht treaty. Page 26

**London stocks:** The FTSE 100 index yesterday recovered a fraction of the ground lost by UK equities on Thursday, helped by a steadier domestic bond market. With an eye closely on bonds, stock market deals sent the index down 24 points before launching it on an erratic course that brought it to close 12.7 points higher on the day at 3,281. London stocks, Page 17; Editorial comment, Page 10; Bonds, Page 14; Markets calendar and Lex, Page 26; Markets, Weekend FT, Page 11

**Oil executive found guilty:** Former oil executive Mohammed Baqi was fined £120,000 after being convicted in London of fraud charges linked to the Bank of Commerce and Credit International. Baqi, 58, was accused of conspiring to defraud the bank's auditors by providing false accounting information. Page 6

**Prince Charles burgled:** Burglars broke in to Prince Charles's apartment in St James's Palace, London, and stole cuff links, the pins and other small personal items. The prince is abroad skiing. Search for South African survivors goes on

Rescuers continued to search in Virginia, Orange Free State, for 41 people still missing after toxic sludge burst from a gold mine dam and engulfed homes on Tuesday. Ten people were found alive yesterday but at least 18 died when the dam burst.

**Bridgestones of Japan,** the world's biggest tyre manufacturer, reported a 53 per cent fall in consolidated pre-tax profits, to ¥27.5bn (¥237.6m) last year from ¥75.5bn in 1992. Page 14

**Irish court frees suspect:** An Irish court freed terrorist suspect Joseph Magee, 37, upholding his appeal against a British request for his extradition for questioning over the murder in 1992 of an army sergeant in Derby. The judge ruled that the offence was a political one for which extradition was not permissible under the Irish constitution.

**More details of MPs' interests:** MPs will have to disclose more details of their involvement with the Lloyd's of London insurance market under new parliamentary rules taking effect next week. A new directory of members' interests will show which MPs are names and detail which syndicates they support. Page 6

## Fly away free to Europe with the FT/Lufthansa offer

Starting on Monday you can get two free Business Class flights to Europe when you take any long-haul Business or First Class return (or two single) Lufthansa Inter-Continental flights. See Monday's paper for full details.

**Airline chief sacked:** Ethiopia fired Captain Zeleke Demisse, general manager of its national airline, saying corrupt and inefficient management had pushed the carrier to the brink of collapse. Thirty other airline employees were also dismissed.

**China seeks up hotline:** China is opening a telephone hotline for workers who feel abused by their bosses. The Ministry of Labour-sponsored hotline is aimed at protecting workers' rights, particularly in foreign-funded enterprises which Beijing says often abuse their Chinese workforces.

**Australia in language push:** Australia launched a 15-year campaign to get 80 per cent of school children learning Asian languages, with Japanese, Mandarin, Indonesian and Korean as the priority targets.

STOCK MARKET INDICES		STERLING	
FTSE 100	3,281.2 (+12.7)	New York headline	1,488
Yield	5.81	London	1,488 (1,470)
FTSE 100 100	1,448.81 (+1.73)	DM	1,488 (1,470)
FTSE 100 50	724.40 (+0.87)	FF	1,488 (1,470)
FTSE 100 25	362.20 (+0.43)	FF	1,488 (1,470)
New York headline	1,488 (+0.87)	FF	1,488 (1,470)
Dow Jones Ind. Av.	3,281.2 (+12.7)	FF	1,488 (1,470)
S&P Composite	488.81 (+1.74)	FF	1,488 (1,470)
US LUNCHTIME RATES		DOLLAR	
Federal Funds	3.25%	New York headline	1,488
3-mo Treas. Bill	3.40%	London	1,488 (1,470)
Long Bond	6.75%	DM	1,488 (1,470)
Yield	6.75%	FF	1,488 (1,470)
LONDON MONEY		DOLLAR	
3-mo interest	3.25%	New York headline	1,488
Lib. long 6m bid	3.25%	London	1,488 (1,470)
Lib. long 12m bid	3.25%	DM	1,488 (1,470)
NORTH SEA OIL (per barrel)		DOLLAR	
Brent 15-day April	\$13.48 (+0.38)	FF	1,488 (1,470)
New York Crude April	\$27.75 (+0.75)	FF	1,488 (1,470)
London	\$27.75 (+0.75)	FF	1,488 (1,470)

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## Crisis talks over Mideast massacre

### Israel and PLO accept US plea on peace efforts after mosque killings

By David Horowitz in Hebron and George Graham in Washington

Israel and the Palestinians agreed last night to try to save the Middle East peace process after a Jewish settler shot dead at least 50 Palestinians in a West Bank mosque.

President Bill Clinton said Mr. Yitzhak Rabin, the Israeli prime minister, and Mr. Yasser Arafat, the PLO chairman, had agreed to his request that they should send negotiators to the US as soon as possible "and to stay here in continuous session until their work is completed".

In the single worst attack on Palestinians since Israel occupied the West Bank in 1967, an Israeli settler opened fire with an automatic rifle in the packed Cave of the Patriarchs in Hebron at the start of the morning's Muslim Ramadan prayers. Dozens of Palestinians were wounded and a further 12 killed by Israeli troops during subsequent protests.

As news of the killings spread throughout the occupied territories, first Hebron and then the entire West Bank and Gaza Strip erupted in clashes between Palestinians and Israeli troops.

"Extremists on both sides are

Killer 'was kindest man - he wouldn't hurt a cat' Page 2  
Talks smothered by cry of outrage Page 10

determined to drag Arabs and Israelis back into the darkness of unending conflict," Mr. Clinton said yesterday.

"The answer now is to redouble our efforts to conclude the talks between Israel and the PLO and begin implementation of the agreement they have made as rapidly as possible," he said. No date has been set for the talks.

Mr. Warren Christopher, US secretary of state, called for calm to prevent the "enemies of peace" from exploiting yesterday's tragedy.

The gunman, an American-immigrant doctor, Dr. Baruch Goldstein, who lived in the nearby Jewish settlement of Kiryat Arba, appeared to have planned the attack in an effort to torpedo the peace negotiations.

The Israeli authorities said Dr. Goldstein later died, but it was not clear whether he had been overpowered or had committed suicide.

Mr. Arafat summoned Palestinian leaders to a crisis meeting in

Tunis. "What has happened today in the mosque is a real tragedy and will make a very negative backdrop on the whole peace process," he said.

Mr. Rabin said in a telephone call to Mr. Arafat that he condemned the massacre and promised to investigate eyewitness claims that Dr. Goldstein had not acted alone. He also offered to speed up the transition to Palestinian self-rule in the territories.

"As an Israeli, I am ashamed," he told Mr. Arafat, according to an Israeli Radio report. Earlier Mr. Rabin had said he hoped the "heinous criminal act of murder" would not be followed by Arab attempts at revenge.

Several Israeli ministers proposed banning the racist Kach movement of which Dr. Goldstein was a member, and disarming its supporters.

The shooting took place soon after dawn, when the vast mosque that covers the tomb of biblical patriarchs, Abraham, Isaac and Jacob, was crowded with about 500 Muslims marking the month-long Ramadan fast.

Dr. Goldstein, a 42-year-old Brooklyn-born father of four who had spoken out publicly about his hatred of Arabs, burst into the mosque wearing his army



A Palestinian carries his wounded son into a Jerusalem hospital after the massacre in the mosque

reservist's uniform, and then opened fire with a Galil automatic rifle.

Witnesses said Israeli soldiers on duty at the site allowed him to keep firing for more than 10 minutes. An Israeli army

spokesman insisted that no soldiers had been inside the mosque, and that fleeing Palestinians had prevented troops from entering to intervene.

Dr. Wissam Muhsen, who was treating the wounded at Hebron's

Al-Ahali hospital, said six Palestinians were killed outside the hospital when soldiers tried to disperse crowds congregating outside. There were also reports of two deaths in Gaza and one in Nabulus.

## Banks set out £1.5bn rescue package for Euro Disney

By Alice Rawsthorn in Paris

The Euro Disney banks have presented outline proposals for a £1.5bn (£1.5bn) restructuring package to rescue the troubled leisure group.

Walt Disney, its powerful US parent company, would bear half the cost of the restructuring. "Disney got us into this mess and it's only fair that it should play its part in finding a way out," said a senior banker involved in the rescue talks. "It seems reasonable that if we put up half the money, Disney should stump up the rest."

Negotiations between the banks and the Disney companies began in earnest after the banks on Monday received the final version of an investigative audit of Euro Disney's finances commissioned from KPMG Peat Marwick, the accountancy group.

KPMG has calculated that Euro Disney, which made a net loss of FF1.5bn on turnover of FF1.7bn in the financial year to September 30, will require a capital injection of FF1.5bn to reduce its FF1.5bn net debt to a manageable level. The group is in a dire financial state after struggling to service its debt at a time when its operations have been affected by the recession.

Under the banks' proposal, Euro Disney would receive part of the FF1.5bn through an injection of capital from a rights issue and, possibly, a debt-for-equity swap. The remainder would be provided indirectly by refinancing its contractual payments to Walt Disney and the cost of servicing its loans.

The package would involve Walt Disney, which owns 49 per cent of Euro Disney, injecting half the FF1.5bn by participating in the rights issue and significantly reducing its entitlement to management fees and royalties from Euro Disney.

The banks would provide a similar amount by underwriting the rights issue, and possibly by swapping part of their debt for equity, and by agreeing to

Continued on Page 26

## UK fails to avert Malaysian trade ban

By Robert Peston and James Birt in London and Karen Cooke in Kuala Lumpur

The British Government last night accepted there was little it could do in the short term to avert the Malaysian trade ban, following an emotional statement from Mr. Anwar Ibrahim, the Malaysian deputy prime minister. Mr. Anwar has announced the exclusion of all UK companies from Malaysian government contracts.

However, it emerged last night that Baroness Thatcher, the former British prime minister, who has a close personal relationship with Dr. Mahathir Mohamad, Malaysia's premier, is prepared to intercede in the dispute.

"She is keeping a close watch on the situation and would contact Dr. Mahathir if asked," said a

close friend of Mrs. Thatcher.

The Malaysians announced the ban in anger at British press allegations that bribes were paid to Malaysian politicians and recent disclosures of a link between a £11m defence contract won in 1988 and £234m paid in aid for the Pergau hydroelectric dam.

Mrs. Thatcher's zealous lobbying in the mid-1980s succeeded in persuading Dr. Mahathir to end his Buy British Last policy, imposed in 1981, and secured a £1bn defence deal between Britain and Malaysia in 1983.

British government attempts yesterday to defuse the latest row appeared to have failed. Mr. John Major, the British prime minister, sent a letter to the Malaysian prime minister. Malaysian officials said they were not greatly excited by the letter's contents

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London stocks Page 17

nor hopeful of any break in the impasse between the two countries.

"We have no intention of reviewing our policy," said Mr. Anwar, in his statement.

The exclusion of UK companies from Malaysian government contracts could cost British industry hundreds of millions of pounds. Before the imposition of sanctions, 250m of contracts were under negotiation.

Business leaders also expressed deep concern yesterday about the possible loss of business and the political handling of the affair.

It emerged yesterday that Lord Prior, chairman of the electronics group GEC, had put in a request

to Downing Street that Mr. Major telephone Dr. Mahathir.

Lord Westminster, managing director of GEC, which is a prime supplier of equipment under that defence contract, urged the opposition Labour party to set aside political differences. He has written to Mr. John Smith, leader of the Labour party, urging him to "encourage your colleagues to remember the strong links that exist between Britain and Malaysia".

A Labour official replied: "Lord Westminster should not be asking the Labour party or any MP not to participate in the proper role of parliament of exercising scrutiny over public affairs."

GEC is also one of seven companies, including P&O, BICC, Kleinwort Benson and Rolls-Royce, which have written

to the Times newspaper accusing British newspapers of writing "ill-informed and tendentious articles" about the techniques used by the British government and press in winning contracts in Malaysia. The letter lauds Malaysia as "a fine example to the world in racial harmony and political stability".

It followed a vitriolic attack on the British press by Mr. Anwar yesterday morning. He said: "We detest their [UK newspapers'] patronising attitude and innuendo that the government of developing countries, particularly a Muslim-led nation like Malaysia, are incompetent and their leaders corrupt."

He was particularly critical of an article in the Sunday Times

Continued on Page 26

## LWT falls to £760m bid from Granada

By David Wighton

Granada won control of London Weekend Television for £760m yesterday after the first successful hostile bid in the UK television industry. The combined group will command about 30 per cent of UK television advertising revenue.

Mr. Alex Bernstein, Granada's chairman, said: "This is good for the industry and good for both sets of shareholders."

But LWT chairman Sir Christopher Blund criticised those shareholders who had failed to back a management team which "has performed outstandingly well for years".

He singled out Mercury Asset Management, which accepted the offer for its 14.2 per cent stake on Thursday, and suggested it had been swayed by its large stake in Granada. "If there's one single reason why we lost, it is that MAM has around 240m of Granada and less than £100m of LWT."

The directors and senior managers of LWT have the consolation that the value of their shares in the company has doubled to about £760m since Granada first took a stake in LWT last year. The shares were issued to 50 individuals following the controver-

sial golden-handcuff scheme put in place five years ago. Sir Christopher's holding is now worth about £14m. Greg Dyke, chief executive, has a 59m stake.

Granada expects to make significant cost savings from combining its north-west ITV franchise with LWT's weekend station in London. Gerry Robinson, chief executive, insisted they would "remain separate franchises". He would not be drawn on likely job losses.

As for the LWT directors, Mr. Robinson said that Sir Christopher had agreed "right from the start" that there would be no place for him in the enlarged group. Mr. Dyke's future was still a matter for discussion.

News of Granada's victory came shortly after the close of the bid at 5pm yesterday afternoon. Granada said it had valid acceptances in respect of 40.3 per cent of LWT's shares which, together with the shares it already owned, gave it a total of 57.8 per cent.

Institutions that accepted the bid included PIFM and Fidelity. It is thought that AMP sold its shares in the market.

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## NEWS: INTERNATIONAL

# Killer 'was the kindest man - he wouldn't hurt a cat. He had simply treated too many intifada victims'

David Horovitz reports from Hebron in the aftermath of yesterday's prayer-time massacre

On the narrow slope leading down into Hebron from the Cave of the Patriarchs, four silver-coloured portable barriers, covered in blood, were drying in the winter sunshine. The trail of blood led further up the hill to the huge Herodian-built entrance to the Cave. There, by the green entry doors, a sign in Hebrew, English and Arabic requested of worshippers: "Please preserve the sanctity of the site." A little after 5am yesterday that sanctity was shattered as never before.

Clad in his army reservist's uniform, and carrying a Gali automatic rifle, Baruch Goldstein, a doctor who lived at the nearby Jewish settlement of Kiryat Arba, slipped past the sleepy soldiers on duty outside, and made his way into the tomb, filled with Palestinians just starting their early morning Ramadan prayers. In a shooting spree that witnesses said lasted at least 10 minutes, he murdered close to 30 Palestinians and wounded dozens more. In a telephone call of condolence and apology to the PLO chairman Mr Yasser Arafat last night, Israel's prime minister Mr Yitzhak Rabin said Goldstein had tried to murder the fragile Israeli-Palestinian peace process.

Most of Hebron was deserted in the hours after the shooting, its stores shuttered, just a few elderly men, heads bowed, walking slowly through the market. But the streets were peppered with rocks and smouldering tyres - lingering signs of the violent clashes between Palestinians and soldiers that raged soon after the

## A violent past



Some of the worst incidents of violence since Israel captured the West Bank and Gaza Strip in 1967.

- Oct 6 1980: Israeli police shoot dead 18 Arabs on Jerusalem's Temple Mount after a Palestinian protest flares into violence.
- July 8 1988: A Palestinian from the Gaza Strip seizes the steering wheel of an Israeli bus and sends it plunging into a ravine, killing 15 Jews.
- March 11 1992: Arab guerrillas infiltrate into Israel from the sea, killing 37 and wounding 82 in an attack on a bus and other traffic.
- April 1992: 16 civilians and two soldiers killed by Arab gunmen entering Israel from Lebanon.
- May 30 1992: Three Japanese gunmen acting for the Islamic Marxist Popular Front for the Liberation of Palestine (PFLP) shoot up the Ayalot Lod Airport killing 25 and wounding more than 60.

shooting, before the army clamped on a curfew. Outside the tomb itself, small clusters of dazed Palestinians milled around, anxious to recount the details of the massacre. When, periodically, soldiers came to shoot them away, smirking groups of young Jewish settlers took their place, their guns slung casually over their shoulders. "It's good, what happened," jeered one young settler at the

ever anybody stood up, there was more shooting. When the panicked Palestinians tried to flee, he went on, "the soldiers closed the doors."

Across town, at the Al-Ahali hospital to which many of the wounded were taken, Sharif Zahid lay propped up in bed, the bloodstains on his pillow and sheets testimony to the bullet wound in his left side, perilously close to his heart. In the chaos when the shooting started, he said, "I thought at first it was coming from outside. But then I saw that my whole row of worshippers had collapsed. The man next to me was hit, and part of his brain fell on my face." At one point, said Zahid, the gunman's weapon jammed. "A Palestinian who knows karate tried to attack him, but was shot by a soldier."

Eventually, he continued, the gunman was overpowered. "I think he was killed," Natshe Shaban said, kneeling beside his brother Jamil, 48, the muzzin who had called the mosque faithful to that morning's prayers. Now Jamil's name is just another on the photocopied list of the dead, stuck in the window at the hospital's reception desk.

Walking through Hebron to the tomb, Lt-Col Yehuda Weiraub of the Israeli army spokesman, was hit on the head by a rock thrown from a rooftop. His white bandage slowly turning red, he insisted to reporters that at no point had soldiers opened fire. In fact, he said, countering the witnesses' assertions, there had been no soldiers inside the tomb; they were keeping a low profile in

deference to the Ramadan prayers. Lt-Col Weiraub was at a loss to explain why the soldiers outside had allowed Dr Goldstein into the Cave, and promised the most thorough investigation of the massacre.

Just a few hundred yards away through deserted streets, at the Beit Hadassah complex where several hundred of the most radical Jewish settlers maintain their symbolic presence in the heart of Hebron, Danny Hismi, a friend of Dr Goldstein, had his explanations ready. The doctor, he said, "was the kindest man - he wouldn't hurt a cat." He had simply treated too many Jewish victims of the Palestinian intifada. "He was always the first on the scene. A few weeks ago, two of his neighbours, from the Lapid family, were murdered. He had tried to save them. I think it was too much for one man. His opinions were very radical, but then there are people with radical opinions everywhere. You think, sometimes, that you want revenge."



but you never do it."

Determined to preserve Friday afternoon "normality," Mr Hismi was on his way to deliver gifts of food to mark the Jewish Purim festival before preparing for the Sabbath. In the courtyard behind him, small Jewish children were laughing in play, clad in fancy dress, in the Purim custom, as though nothing out of the ordinary had been taking place just down the street.

In a basement at Beit Hadassah, a museum commemorates the 22 Jewish residents of Hebron killed by Arab mobs in 1929. It was their deaths, and the consequent severance of the Jewish presence in Hebron, that galvanised Jewish settlers to return to this 60,000 strong Arab town in the spring of 1968, months after the West Bank had been captured by Israel in the 1967 Six-Day War. Since then, more than 120,000 Jews have followed their example and made homes in the occupied territories, but only the most ideologically-motivated settlers can survive here and in the Kiryat Arba settlement that overlooks the town, reviled as intruders by their Palestinian neighbours.

Barred from the Tomb of the Patriarchs for 700 years, the Jews have gradually established equal praying rights with the Muslims, the two communities tentatively sharing the same place, at different times. The main hall serves as a mosque, two side rooms as synagogues. Except on Fridays, when Muslim prayer mats are laid out in all the rooms, and Jews are denied entry. Or should be.

## West tries to maintain momentum for peace

By Mark Nicholson in Cairo and James Whittington in Amman

World leaders expressed shock and condemnation of the Hebron slaughter yesterday and urged that the atrocity should not be allowed to derail efforts to negotiate a peace agreement.

President Bill Clinton warned that the massacre would complicate the difficult work of peace. "It's horrible and I condemn it. It's a terrible human tragedy and it only complicates the difficult work of peace," he said at the White House.

Mr Warren Christopher, US secretary of state, spoke of his horror at the killing, and said it "underscores the imperative of accelerating the

negotiations" towards implementation of the declaration of principles signed between Israel and the Palestine Liberation Organisation last year.

He called for calm to prevent the "escalation of peace" from exploding yesterday's tragedy. Mr Christopher also telephoned Mr Yasser Arafat, the PLO chairman, to urge "calm, reason and restraint".

Similar sentiments came from other capitals, with the French foreign ministry condemning the "heinous crime" and also urging "restraint" from all parties.

In neighbouring Jordan the atmosphere was tense. An elderly British tourist, Mr Howard Long, of Purley in Surrey, was stabbed in Amman

hours after the massacre but not seriously wounded. Westerners have been advised not to stray away from the main tourist areas.

The US warned Americans travelling in Israel to stay out of East Jerusalem, the West Bank and Gaza. The State Department also cautioned Americans to exercise caution when travelling throughout the Middle East and Europe.

Angry Palestinian officials, however, said the slaughter in Hebron would "psychologically and practically" affect peace negotiations due to resume in Cairo early next week.

Mr Said Kemal, head of the PLO mission in Cairo, said Mr Arafat had called an emergency meeting of the executive committee of the PLO

central council in Tunis to discuss the future of the negotiations.

However, Mr Nabil Shaath, the chief Palestinian negotiator in the detailed talks on Israeli withdrawal, said yesterday "we are not contemplating interrupting the peace talks". He added: "We don't know about the schedule, but the peace talks will go on."

Describing the killings in Hebron as "a major catastrophe", he said that it "clearly demonstrated that these settlers are, will be and always have been the major problem to a solution on the ground".

Mr Shaath said it was imperative the Israelis take concrete steps to assure the protection of Palestinians in the occupied territories. "They

have spent 75 per cent of the time in these talks discussing their security without considering that of our people," he said.

Longstanding Palestinian opponents of the Oslo agreement were quick to claim that the killings showed that the PLO-Israeli deal was unworkable. "It shows that peace with the Zionists is impossible," said a statement from Hamas, the militant Islamic Palestinian group which also vowed to avenge the killings and "punish" Israeli troops and settlers.

Other "rejectionist" Palestinian groups, including the Democratic Front for the Liberation of Palestine and the Popular Front for the Liberation of Palestine, both based in Damascus, also vowed vengeance.

## US dismisses Tokyo target to cut surplus

By William Dawkins in Tokyo

Japan plans to set a target for cutting its record current account surplus, in what appears an inadequate attempt to defuse its trade row with the US.

The cabinet yesterday agreed to produce a market-opening plan by the end of March, including a goal proposed by Mr Tsutomu Hata, foreign minister, to reduce the surplus to 2.8 per cent of gross domestic product, or \$125bn (\$24bn), this year, from the estimated 3.1 per cent of GDP for the year to the end of March. The current account surplus was \$131.35bn in the last calendar year.

This goal - not a binding pledge - is already in the government's economic target for the coming year, published two weeks ago.

If received an instant dismissal from Mr Walter Mondale, US ambassador to Japan: "That's their current estimate. That wouldn't be anything. What we need is to bring about a highly substantial reduction of the current account surplus over the next four years."

The scheme is likely to be on the agenda of a private meeting in Frankfurt this morning, of Mr Hirohisa Fujii, Japanese finance minister, and Mr Lloyd Bentsen, US treasury secretary, before a session of the Group of Seven finance ministers. Japan will also be seeking co-operation from its G7 partners to avoid another steep rise in the yen's value.

The plan to set a firm goal for a reduction in the surplus also ran into criticism from Mrs Masae Kubota, director-general of Japan's Economic Planning Agency, which draws up the government's economic targets.

It has managed to stick to few of its own current account targets since the agency

started compiling them in 1955, she pointed out.

Mr Hata agreed that the government could not make a firm pledge on the surplus because of the volatility of exchange and interest rates. But, as long as Japan ran a heavy trade surplus with the US (\$50bn last year), "we cannot have understanding from the international community," the foreign minister said.

Mr Morihiro Hosokawa, prime minister, had hoped to have a market-opening package ready in time for the G7 meeting today, but officials argued they needed more time if they were to prepare plans of real substance.

The main headings include more deregulation (such as streamlined import procedures), more open government procurement, tougher anti-trust rules, and measures to promote imports and foreign investment.

Nancy Dunne adds from Washington: The Clinton administration had no immediate response to Japan's latest efforts to formalise a trade plan.

However, Mr Mickey Kantor, US Trade Representative, issued a statement of support for a tough new trade bill, introduced on Thursday, by Congressman Dick Gephardt, Democratic majority leader in the House of Representatives, and Senator Jay Rockefeller of West Virginia.

The bill would require the US Commerce Department unilaterally to set targets for foreign import penetration in Japan. Mr Kantor said Mr Gephardt and the senator had "spent years thinking about the US-Japan relationship and working for a change in Japan. We welcome this expression of Congressional support for a policy that finally achieves real market opening in key sectors in Japan."

## Russia slipping from top of G7 agenda today

By Emma Tucker in London and Quentin Peel in Bonn

Finance ministers from the Group of Seven leading industrialised countries are to meet near Frankfurt today, to discuss the crisis in the Russian economy. This is so intractable, however, that their discussions are likely to focus as much on their own problems of unemployment and lacklustre growth.

The meeting was called last month by Mr Theo Waigel, German finance minister, to find out, as one shaper put it, "what the hell Russia is up to".

Since then, turmoil has hit the world's securities markets, a trade war is threatened between the US and Japan, and there is rising concern about the German economy, prompting the ministers heading for the meeting today to add the global economy to their agenda.

The G7 finance ministers - and central bankers from the US, Japan, Germany, France, Italy, the UK and Canada - will confer among themselves before meeting Mr Sergei Dubinin, Russian finance minister, Mr Alexander Shokhin, economy minister and Mr Victor Geraschenko, central bank governor.

They are expected to take a tough line with the Russians, in stressing the need for concrete measures to control the government's budget deficit and money supply.

Although the G7 delegates are keen to support the continuation of economic reform, they are adamant that a reliable and predictable economic policy is essential, above all to attract foreign investment and not simply to get more public finance from the G7 governments.

Mr Waigel, who will be chairing the meeting, made clear in advance that there are no plans for additional finance from the G7 group, but that transfer of funds, already promised at the Tokyo summit last year, depends on Moscow's further progress with the reform programme.

Given the confusion emanating from the former Soviet Union, and the difficulty of producing anything meaningful, the US-Japan trade row threatens to hijack events. No communiqué is planned.

The US, which sees itself as the saviour of global economics, is aggrieved that Japan and Europe have dragged their feet while Washington, in the

words of Mr Lloyd Bentsen, US Treasury secretary, has "laid the basis for a recovery with solid growth, a declining budget deficit and the lowest inflation and interest rates in more than 30 years in the Russian economy."

The US grievance is with Japan. It argues that Japan's inability to create the growth required to reduce its external surplus is acting as a drag on the world economy.

For its part, Japan will protest that it has taken the necessary steps to boost growth in the form of its recent economic stimulation package.

Moreover, it argues that any form of numerical targeting of its bilateral trade with the US runs against the spirit of a multilateral trade system and the recent Uruguay round agreement to liberalise global trading, a point on which it may well receive support from the UK and others.

Also, the US is expected to draw attention to the sluggish reduction of interest rates in continental Europe since the currency crisis last year.

Although a senior US Treasury official conceded recently that the US would not want to see the Europeans do anything "imprudent", Mr Bentsen has called attention to the "staggering burden of rising unemployment" in Europe.

This issue is more likely to surface when the G7 meets again, next month in Detroit, to discuss persistently high unemployment in industrialised countries.

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## Clinton urges Congress to protect Moscow aid

By George Graham in Washington

President Bill Clinton yesterday urged senior members of Congress not to cut off all aid to Russia, in response to the arrest in the US of a senior Central Intelligence Agency officer on charges of spying for the Russian intelligence service.

Seeking to fend off calls for an immediate freeze of US assistance, Mr Clinton called Republican and Democratic leaders to the White House to persuade them that aid to Russia, for such as reducing nuclear weapons and promoting economic reform, remained in the US national interest.

"US support for reform in Russia does not flow from a sense of charity or blind faith. Our policy is based on our clear American interests, clearly pursued," Mr Clinton said after the meeting.

Although he won support for the argument that the US should not overreact to the spy incident, it was clear that the request for more Russian aid, in the US budget next year, is in trouble. "Aid is largely symbolic, and cutting it off may well be the best symbolic message we could send," a Congressional official said.

Senior members of Congress are increasingly questioning not only the overall amount of aid to the states of the former Soviet Union but also the proportion that goes to Russia.

"While we all agreed that the spy incident would not, in and of itself, warrant reconsideration of aid, there are a lot of other things that do. The Russia-first policy, I think, is increasingly in disavowal in the Congress," warned Senator Mitch McConnell of Kentucky, senior committee controlling foreign aid spending.

He had insisted, in the US budget negotiations last year, on a portion of the aid package going to Ukraine. That portion is expected to increase this year because of Ukraine's trilateral agreement, with the US and Russia, to give up the nuclear weapons on its territory.

## S Africa aluminium to be cut

By Matthew Curtin in Johannesburg

Alusaf, South Africa's only primary aluminium producer, yesterday backed industry moves worldwide to reduce aluminium stocks and improve depressed market conditions for the metal.

The company announced production cuts equivalent to nearly 10 per cent of its planned future capacity. Alusaf has in hand a \$1.5bn (\$1bn) expansion project to add 466,000 tonnes a year to its current 140,000 capacity, turning the company into one of the biggest producers with about 4 per cent of global output.

Mr Bob Barbour, managing director, said that, while construction of the new smelter was going ahead, Alusaf would reduce export tonnage from its old smelter by 20,000 tonnes in 1994 and again in 1995. Alusaf was shelving plans to increase the old smelter's capacity by 40,000 tonnes a year until market conditions had improved.

## Mexico to admit vote observers

By Damian Fraser in Mexico City

Mexico is preparing to break with its nationalist past and formally accept foreign observers of its presidential election in August, a senior government official said.

The decision comes as peace talks aimed to end the peasant uprising in the southern state of Chiapas seem to be making rapid progress. After four days of talks, the rebels reported about 50 per cent of their demands had been met.

President Carlos Salinas was "seriously considering foreign election observers. There cannot be any doubt about the process and transparency of elections. There could be resistance [to the observers] but we can do it," said the official, speaking on presidential authority. He left little doubt that the decision to admit foreign observers had been taken in all but name.

For historical reasons, Mexico would not accept US observers, he said. The exact

role of the observers had yet to be worked out, but it is expected they would issue a formal report on the elections.

The negotiations between the political parties over electoral reform, which have focused on the make-up of electoral tribunals but include the issue of foreign observers, seem to have picked up momentum.

The official added that peace talks in Chiapas, aimed at formally ending the uprising there, were going much more rapidly than expected. His view echoes statements by Mr Manuel Camacho, the government's peace envoy in Chiapas, who said the round of talks might finish tomorrow, after which rebel leaders would consult their supporters.

The rebels said the government has promised electricity, health and education services to indigenous people's villages, compensation for the relatives of victims killed in the 56-day-old rebellion, and a commission to ensure compliance with an eventual peace accord.

POLSKI BANK ROZWOJU S.A.  
POLISH DEVELOPMENT BANK

### NOTICE OF MEETING

### The Board of Directors of the Polish Development Bank in Warsaw

pursuant to articles 350 and 393 of the Polish Commercial Code and paragraph 27 of the Charter of the Polish Development Bank, Joint-stock Company,

### the Annual General Assembly of Shareholders

will be held

on 28th March, 1994 at 10.00 am  
at the offices of the Bank in the IPC Building,  
54 Koszykowa Street, Warsaw.

The agenda of Assembly is as follows:

1. Opening,
2. Election of a Chairman of the Annual General Assembly of Shareholders,
3. Confirmation, as required under the Commercial Code, that the Annual General Assembly of Shareholders has been called in the proper legal manner, and that the Assembly has the authority to make legally valid and binding decisions,
4. Report of the Board of Directors on the performance of its duties in 1993, and a vote of acceptance,
5. Report of the Supervisory Board on the performance of its duties in 1993, and a vote of acceptance,
6. Review and adoption of the Report of the Board of Directors on the Bank's performance in 1993,
7. Review and adoption of the Bank's Balance Sheet as at the end 1993,
8. Review and adoption of the Bank's Profit and Loss Account for 1993,
9. Review of Board of Directors' proposal for the distribution of net income,
10. Approval of the distribution of net income,
11. Approval of the resolution to designate the reserve capital of 40,000,000,000 PLN for the activities of the PDB's Brokerage Office,
12. Changes in PDB's Charter,
13. Voting of resolution to increase the Bank's authorised share capital,
14. Other business,
15. Close of meeting.

Drafts of documents mentioned in points 1 to 15 of the Agenda will be available for examination by Shareholders at the Head Office of the PDB at 47-49 Żurawia Street, Warsaw, Poland, 14 days before the date of the General Assembly.

President of the PDB  
Wojciech Kostrzewa



# German groups enter TV venture

By Quentin Peel in Bonn

Bertelsmann and KirchGroup, Germany's two largest investors in private television, are to join Deutsche Telekom, the state telecommunications monopoly, in a bid to become the dominant distributor of the next generation of digital television services in the country.

The three have signed a memorandum of understanding to create a joint venture called Media Service, which will offer to manage and distribute new TV channels, as well as specialist telecommunications services, on Deutsche Telekom's cable television network.

The plan is to establish a single service company to distribute new pay-TV programmes, shopping-TV and other specialist channels on a ready-made communication network which already includes 14m homes in Germany.

Initial investment is expected to be around DM200m (\$77.8m), and the joint venture is intended to develop its own decoder system, so that it can offer clients not only the cable distribution, but also a single sophisticated billing system, charging viewers according to the television they watch.

The alternatives to cable distribution of digital television would be satellite distribution or terrestrial broadcasting, but Deutsche Telekom is clearly

keen to exploit its existing monopoly position in German cable TV. Only in east Germany is there very low cable penetration in urban areas, with satellite broadcasting filling the gap.

The deal brings together the Bertelsmann media empire, whose television interests include RTL, Germany's most profitable private broadcaster, and KirchGroup headed by Mr Leo Kirch, who is a leading shareholder in the SAT-1 station, and in the Axel Springer publishing group.

Although the two groups are normally fierce rivals, they are both shareholders in Premiere pay-TV, whose technical expertise and marketing skills

with some 800,000 subscribers could be used in the venture. Deutsche Telekom, soon-to-be privatised under legislation currently going through the German parliament, is obviously keen to exploit its existing cable network as the dominant means of distributing future digital television and specialist telecommunication services.

However, all three were adamant yesterday that Media Services would be scrupulously neutral in its treatment of future clients, restricting itself to technical, administrative and distribution services.

"The new joint venture will not act as a broadcaster or provider of programming," they

said in a statement. That commitment is intended to ensure that the new venture does not fall foul of Germany's strict controls over the broadcasting market, which forbids any one company from a majority shareholding in more than one station.

The three founders are adamant that they are not seeking to create a monopoly over distribution of future digital television services in Germany.

They said they were happy to accept further shareholders with minority stakes in the joint venture, which will be founded on April 1. It will be based in Berlin, and is intended to start operation by the middle of the year.

French farmers present prize bulls in front of the Eiffel Tower yesterday. The farmers are gathering in readiness for the opening of the annual agricultural fair which opens on Sunday.



French farmers present prize bulls in front of the Eiffel Tower yesterday. The farmers are gathering in readiness for the opening of the annual agricultural fair which opens on Sunday.

## NEWS IN BRIEF

### US and Japan settle tariff cuts

The US and Japan yesterday said they would deliver to Gatt by midnight their final tariff schedules under the Uruguay Round of global trade talks, ten days after the official deadline of February 15, writes Frances Williams from Geneva. The two other members of the Quad group of leading trading nations - the European Union and Canada - submitted their tariff schedules this week. Though US officials have blamed Washington's delay on technical problems in compiling the 1,000 page long schedule, it follows a row with Japan over US withdrawal of tariff offers on some industrial electronics items. Tokyo disputes US claims that these offers were conditional on further Japanese tariff concessions on wood, white spirits and non-ferrous metals, but now says it will not retaliate by adjusting its own offer. This has raised hopes that the dispute may be quietly laid to rest. Other Gatt members who have not already submitted tariff schedules are expected to do so shortly. Ministers meet in Marrakesh in April to sign the Uruguay Round accords.

### France plans presidential primary

Mr Charles Pasqua, the French interior minister, said yesterday he intended to present a bill enabling French political parties or coalitions to hold US-style national primary elections to select their presidential candidates, writes David Buchanan from Paris. Responding to growing tension between rival presidential contenders within the ruling RPR-UDF coalition, Mr Pasqua told Le Figaro newspaper he wanted to prevent a recurrence in next May's presidential election of the split in the conservative vote that put President Mitterrand in the Elyse in 1981 and 1988.

### Greek finance minister chosen

Greece's finance undersecretary, Mr Alexandros Papadopoulos, was promoted to finance minister yesterday, replacing Mr Giorgos Gennimatas, writes Kevin Hope from Athens. However, Mr Gennimatas, who has cancer, will stay as economy minister, a post he has held since last October. The changeover is likely to delay tax legislation due to go before parliament this month, heightening concerns that Greece's rising public sector deficit is going to exceed this year's target of 12.9 per cent of gross domestic product. Mr Papadopoulos will also need to tackle 7.5m disputes over tax liability, some going back more than 10 years. The finance ministry estimates that settlement could raise an additional Dr300bn (\$1.2bn) in revenues this year.

### Italian left wants centre alliance

Mr Achille Occhetto, the leader of Italy's former communist FDS party, (left) will today try to assemble a loose alliance with centre parties to counter rising electoral support for Mr Silvio Berlusconi, the media magnate, writes David Marsh. Speaking in London as the election campaign opened, Mr Occhetto forecast a "lightning future" for Italy if Mr Berlusconi's right-wing Forza Italia movement wins. Mr Occhetto used his visit, arranged in association with the Schroders banking group, to discuss his party's economic policies with UK-based industrialists and fund managers. He stressed yesterday that, if elected, he would continue the policies of Mr Carlo Azeglio Ciampi aimed at cutting the budget deficit and reforming public administration.

### Pakistan wins \$2.5bn aid

Pakistan's foreign aid donors yesterday praised its recent efforts to improve public finances and to privatise state companies, and granted Islamabad's request for \$2.5bn in fresh assistance, of which \$2.3bn will be provided in 1994-1995, writes David Buchanan from Paris. Meeting for the first time since April 1992, the 13 western governments and multilateral agencies making up the Pakistan aid consortium endorsed the country's economic reforms which had remained unaffected by the change in government four times in seven months last year.

### Burma guerrillas end 30-year fight

Burma's military junta has signed a ceasefire agreement with the Kachin Independence Organisation, the country's biggest guerrilla group, ending more than 30 years of fighting in the far north of the country, writes Victor Mallet from Bangkok. Lt-Gen Khin Nyunt, the most prominent member of the junta, hailed the deal as "an auspicious day" for Burma. But the KIO, said the deal covered only military matters, such as troop movements, and did not imply an immediate start to political negotiations.

### Peacekeepers close in on Tuzla

United Nations peacekeepers yesterday moved closer towards opening Tuzla airport in eastern Bosnia which has been besieged by Bosnian Serb forces, writes Judy Dempsey. Nine German Leopard tanks, which can withstand mortar and artillery strikes, reached Tuzla as part of the UN's efforts to re-open the airport by March 7. The move coincided with an announcement by the Russian parliament to send an additional 300 peacekeeping troops. Mr Vitaly Churkin, Russia's deputy foreign minister and Moscow's special envoy to Bosnia, said the decision would "symbolise Russia's growing central role in a Bosnian settlement."

### Mandela to meet Buthelezi

Efforts to avert civil war in South Africa are to reach the highest levels next week when Mr Nelson Mandela, leader of the African National Congress, meets Chief Mangosuthu Buthelezi, head of the Zulu-based Inkatha Freedom Party, writes Patti Waldmeir in Johannesburg. The surprise meeting, announced last night, is the first between the two men since constitutional negotiations deadlocked and Chief Buthelezi announced his boycott of the April elections. Chief Buthelezi insists that only such a meeting of leaders can resolve the impasse, but past encounters between the two men have yielded little.

■ Belgian National Bank yesterday cut its central rate to 6.40 per cent from 6.55 per cent. Money market dealers welcomed the cut, the second in a week, seeing it as a bid to pacify jittery markets.

## Fears of 'negotiating crunch' at enlargement talks

By David Gardner in Brussels and Hugh Carnegie in Helsinki

Ministerial talks on enlargement resumed in Brussels last night amid dimming hopes that terms of entry into the European Union for Austria, Norway, Sweden and Finland can be reached by the deadline of Monday midnight. "There is a genuine negotiating crunch coming" over this weekend, one EU ambassador forecast yesterday.

Last night's talks centred on agriculture and fisheries. All but the

Swedish government are unhappy with EU proposals for long-term aid to Arctic and Alpine farmers, which the applicants would largely have to fund themselves.

They are also opposed to immediate realignment of their far higher farm prices to EU levels, and instead want border levies to iron out the price difference. The European Commission and, so far, a majority of the 12, say such frontier controls would compromise the border-free single market.

The UK argues that a "big bang" on farm prices for the would-be members

could jeopardise the referendums on entry in three of the four applicant countries. They force the EU having to pay too much of the compensation for the farm price cuts.

Norwegian fish and EU lorry traffic through Austria's Alpine passes are far more intractable issues, and could sink the talks. Austria wants to keep restrictions on EU truck transit through the Alps for 10 more years, rather than three as the Union insists.

The 12 were last night trying to agree a common line on fish, which accommodates Spain's demand to

catch 14,000 more fish in Norwegian waters, and French-led demands for restrictions on incoming fish products from Norway.

Sweden, which has fewer differences with the EU over the central issues of agriculture, regional support and fisheries, also made clear it would consider signing an accord before its Nordic neighbours if it had agreed terms but Norway and Finland had not by the March 1 deadline set by Brussels for the completion of the accession talks.

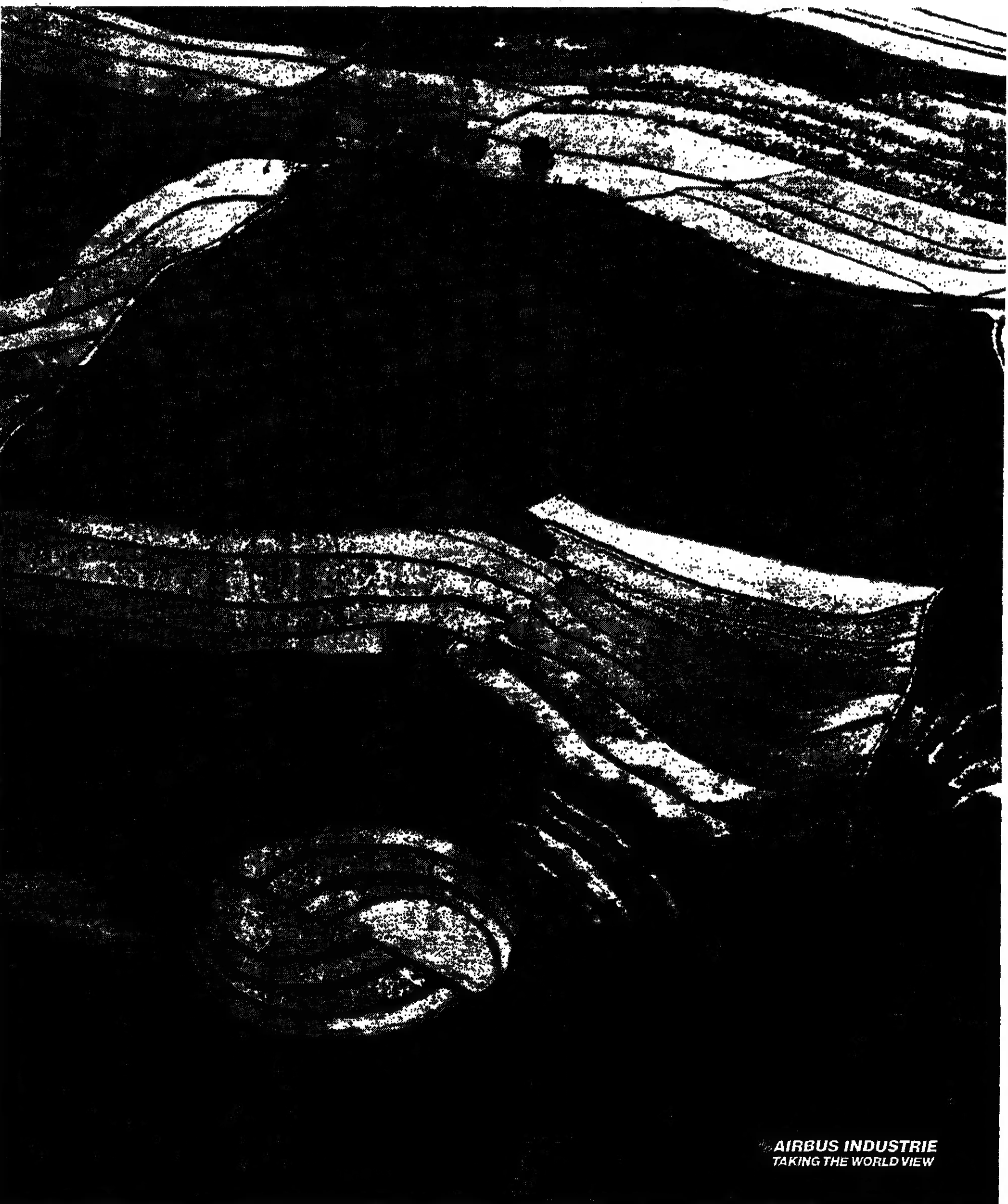
Following a meeting in Helsinki of

the leaders of the three countries, Prime Minister Esko Aho of Finland and Mrs Gro Harlem Brundtland, his Norwegian counterpart, criticised the EU's proposals to limit regional support to remote Arctic areas and for not meeting their demands for special treatment of Nordic agriculture.

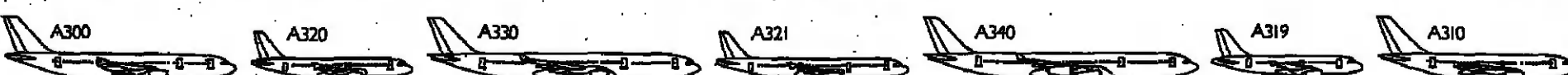
But Mr Carl Bildt, the Swedish prime minister, stressed that the talks were being conducted bilaterally and Sweden was anxious to conclude a deal with Brussels. "Each country will have to decide for itself," he said. Not yet on board, Page 11

## The airlines of the Far East now view us as part of the landscape.

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## THE MALAYSIAN TRADE BAN

Malaysia's ban on contracts for British companies in protest at suggestions of corruption by the UK media has taken John Major's government by surprise and doubled its embarrassment over the Pergau dam affair. The clash highlights the divergence of approach of western democracies and Asia's fast-growing emerging economies

## MPs will press investigation despite row

## PERGAU PROJECT

By Robert Peston, Jimmy Burns and James Blitz

UK businessmen and the Malaysian government have been united in complaining about British press coverage of the Pergau dam affair in recent days.

But despite their protestations, the British media and MPs will continue to press Mr John Major's government on an issue they regard as having legitimate public interest.

Mr Douglas Hurd, the foreign secretary, will next Wednesday be cross-examined on Britain's aid for the Pergau dam by the House of Commons Foreign Affairs Committee.

MPs will quiz Mr Hurd on his

decision in July 1991 to approve a £24m grant to the Malaysian government for the hydro-electric dam - the largest sum for a single scheme under the Overseas Development Administration's Aid and Trade Provision - against the advice of the civil servant in charge of aid policy.

More crucially, they want to find out whether, in their zeal to win defence contracts with Malaysia, ministers broke foreign office guidelines prohibiting the linking of aid to arms sales.

The UK grant for the dam had been negotiated at around the same time as a £1bn defence package was signed by Lady Thatcher, then prime minister, and Dr Mahathir Mohamad, the Malaysian prime minister.

The package, which includes

sales by GEC and British Aerospace, remains shrouded in secrecy but it is thought to include the supply of fighter aircraft and the construction of military command and logistics centres.

Mr Hurd said yesterday the aid and defence deals had been briefly "entangled" for three months in 1988, and were "then pursued separately." GEC also said yesterday there was no linkage between the defence deal and Pergau, even though it has a share of both contracts.

Questions about the deal were first raised last October when the National Audit Office, the government's accountancy watchdog, issued a report on the project. It revealed that ODA officials had concluded that on commercial terms, the Pergau project was "a very bad

buy" and a burden on Malaysian consumers.

The NAO said that funding arrangements chosen by the government would add at least \$50m to the aid provided by the UK taxpayer over the 14-year life of the project. It would also mean Malaysians paying £100m more in electricity costs than cheaper alternatives.

Since then, the foreign office has admitted that before Lady Thatcher concluded the defence deal, her then defence secretary Lord Younger signed a protocol in March 1988 which - in the foreign office's words - "briefly linked arms and aid." It is understood that in the protocol aid was offered as a specific percentage of the defence deal.

Downing Street officials said last week this was an "unfortunate

error" by officials advising Lord Younger. Mr Hurd has repeatedly claimed that the deals were "delinked" within three months, and that Malaysia was informed that there could be no formal package encompassing the two.

Nevertheless members of the FAC want to ask Mr Hurd several questions next week:

● Is it credible to say that the deals were "delinked" just because they were not formally pursued in a single package?

● Why did Mr John Major, as prime minister, give the final go-ahead for the Pergau project to be signed in February 1991?

● Is there any connection between the securing of the defence deal and the issue of public interest immunity certificates preventing the release of foreign office telexes in

the trial of Mr Lorrain Osman, a Malaysian businessman?

Members of the FAC have asked to see the full text of a letter sent to Dr Mahathir on August 8 1988 by Baroness Thatcher. She confirmed the aid deal, but foreign office officials say that at the end of the letter she "looked forward to Dr Mahathir's visit to Britain in September 1988, when she hoped that the memorandum of understanding on the defence package could be signed."

It is also understood that Baroness Thatcher sent memoranda to Lord Younger and other ministers in the spring of 1988 raising deep concern over the linkage of the deals. How much light do these throw on the decisions that were finally taken?

The overriding political issue will

be the extent to which foreign policy factors as well as wider commercial considerations overrode aid policy, and where in the final analysis the UK national interest lay.

The Malaysian government has argued that it was an important project as part of its programme to diversify its sources of electricity. BICC and Trafalgar House, the lead contractors on Pergau, also argue that the project will prove economically viable in the longer term.

Mr Hurd's defence is that the deal was crucial in getting a more favourable trading relationship for the UK and Malaysia. He has also argued that he had no choice but to stand by commitments made by previous ministers in Baroness Thatcher's government.

## 'Arrogance' of west riles a maverick

## MALAYSIA TODAY

By Kieran Cooke

To many in the west, Dr Mahathir Mohamad might seem a maverick. The Malaysian prime minister's action against Britain might seem out of proportion to the offence Malaysia says the British media has committed.

Dr Mahathir has made outspoken attacks on the west on a range of issues. He, and Malaysia generally, have gained a reputation as difficult to deal with. Dr Mahathir does not care.

"Sometimes you have to be a bit notorious to be famous," said Dr Mahathir recently. But at the same time the Malaysian prime minister has shown himself sensitive to criticism.

Despite Dr Mahathir's firm grip on power, reports do circulate of large scale financial scandals and pay-offs. A government anti-corruption agency is widely perceived as ineffective.

Politics and business are closely interlinked in Malaysia: Dr Mahathir's United Malay National Organisation (UMNO), the dominant political party in Malaysia, exercises enormous power over the corporate sector.

Foreign companies operating in Malaysia find that connections are all important to winning business deals. The concept of conflicts of interest between state and corporate sectors rarely applies.

But behind Dr Mahathir's attacks on the west, there is another message: Malaysia, and other fast developing countries in east Asia, are growing increasingly intolerant of what they consider to be the patronising and arrogant behaviour of the west.

"We believe the foreign media must learn the fact that developing countries, including a country led by a brown Moslem, have the ability to manage their own affairs successfully," said Mr Anwar Ibrahim, deputy prime minister, yesterday.

Malaysia's economy has grown more than 8 per cent in each of the past six years. The Kuala Lumpur stock exchange is one of the biggest in east Asia. Malaysia makes its own cars and is a leading computer parts manufacturer.

Economic success has bred confidence, some would say arrogance. Dr Mahathir believes in strong leadership.

He rejects western ideas of press freedom. He attacks western attitudes on human rights questions. He rails against what he perceives to be - as in this instance - interference in Malaysia's internal affairs.

Dr Mahathir has some powerful supporters. Indonesia and Singapore and China would have very similar views.

Within Malaysia the prime minister probably has more to gain than lose from this fracas. While Dr Mahathir is perhaps not liked by all Malaysians he is respected by many. They see him as the great moderniser - the man who has propelled the country towards industrialisation and greater prosperity.

The Malaysian opposition is small and ineffective. But it has created some government angst by questioning senior officials about British media allegations of corruption in high places.

The Malaysian media is very carefully controlled and the message that Dr Mahathir, and the Malaysian people, have been insulted by the British press is being pressed home.

With general elections likely this year, Dr Mahathir might be hoping the move against Britain will rally domestic political support. But this should not be overemphasised.

Dr Mahathir's national front coalition would appear certain of victory in any poll.

Dr Mahathir is not a man for turning. It took more than six years for Britain to persuade the Malaysian leader to change his "Buy British Last" policy of the early 80s. A personal friendship which developed between Dr Mahathir and Mrs Margaret Thatcher, the former British prime minister, was largely responsible for healing ties.

But Dr Mahathir and Mr Major are not close. Mr Major was angered by a forthright attack on British policy on Bosnia made by Dr Mahathir during a visit to Kuala Lumpur late last year. Bosnia is a subject on which Dr Mahathir holds very strong views: little common ground seems to exist between the two leaders.

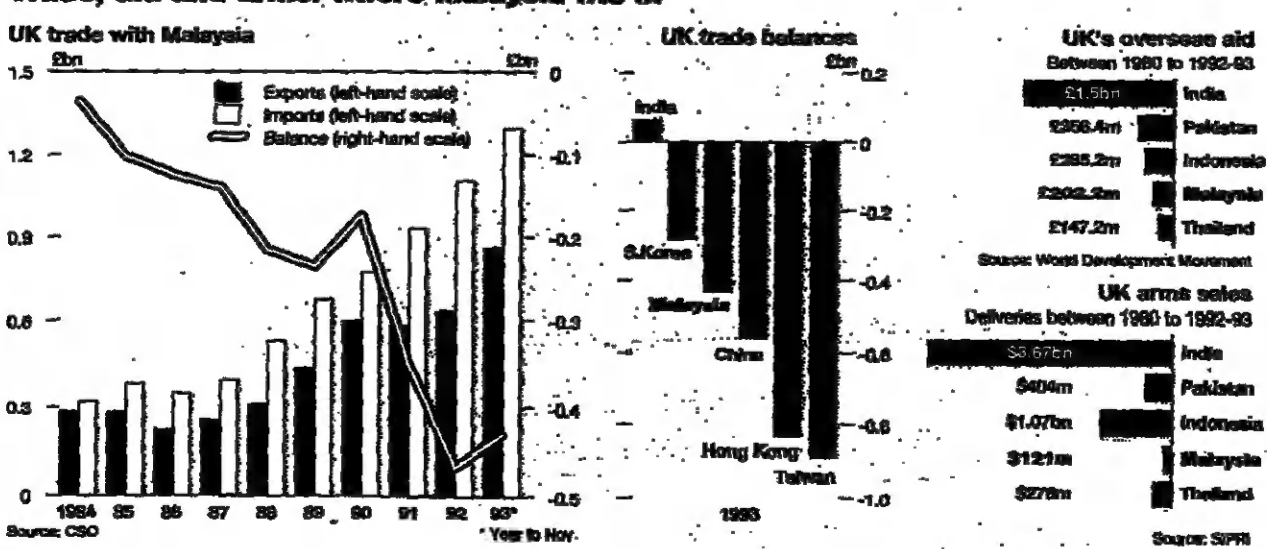
It is very difficult to see how relations can be brought back to normal. Yesterday Mr Anwar said he was not expecting or seeking any apologies from the British government. He seemed at a loss to suggest what could be done. But he was clear that Malaysia would continue with its action against British companies.

## Malaysia shuts the door



Project	Value	Contractor
Kuala Lumpur Int'l Airport	\$2.2bn	Bechtel, Skanska, Hochtief, etc.
Selangor development plans	\$2.2bn	Bechtel, Skanska, Hochtief, etc.
Changi airport	\$2.2bn	Bechtel, Skanska, Hochtief, etc.
Light rail system, Kuala Lumpur	\$225m private finance	Taylor Woodrow, AEG Westinghouse (Germany)
Stai airport	\$225m	John Laing, Yee Hong Lay (Malay)
Twelve hospitals	\$150m	John Laing, Yee Hong Lay (Malay)
Selangor power station	\$95m	John Laing, Yee Hong Lay (Malay)
Pearl Gudang power station	\$120m	John Laing, Yee Hong Lay (Malay)
Two gas turbine power stations at Pearl Gudang & Paka	\$200m	John Laing, Yee Hong Lay (Malay)

## Trade, aid and arms: where Malaysia fits in



## Honeypot of as much as £4bn 'down the drain'

## TRADE PATTERNS

By Kieran Cooke

One Kuala Lumpur based British businessman had a straightforward reaction to events of the last few days.

"It's terrible, terrible. Three years of negotiations down the drain. I'm going to get drunk." It is hard to over-estimate the effect of yesterday's Malaysian government action against British companies. Over the past six years, Malaysia has been a honeypot for British business.

Mr Anwar Ibrahim, the deputy prime minister and finance minister who made yesterday's announcement, said up to M\$16bn (£4bn) could be affected by the move.

John Laing, the British construction and engineering company, has had its regional HQ in Malaysia for the past eight years. With its Malaysian partners Laing is involved in a \$12m hospital building programme, a \$30m airport project in East Malaysia and has recently invested \$12m in a power station project.

But Laing will now have to wave goodbye to possible multi-million pound contracts to build an extensive army barracks complex and a private university complex in Kuala Lumpur. Negotiations on the barracks have been going on for four years.

For Laing and companies like it, Malaysia was a shop window to the region. Malaysia is a regional pioneer in build, operate, transfer contracts and in privatising its power sector. British Gas, the National Grid, John Brown, Rolls Royce and others had hoped to use their involvement in the Malaysian power sector as a springboard in the world's fastest growing economic region.

The most cruel blow has been dealt to the group of companies involved in the Anglo-Japanese consortium working on a new M\$12m (£30m) airport south of Kuala Lumpur, Trafalgar House, Balfour Beatty, GEC - in partnership with Marubeni of Japan had been assured of the bulk of the work.

Yesterday Mr Anwar said the British companies involved had already been informed that they would be awarded no

further work on the project.

The airport, due to be completed before 1998 when Malaysia is due to host the Commonwealth Games, could be delayed by the forced British withdrawal. The cost could also rise. Malaysia does not seem concerned.

There are many grey areas in the midst of this fracas: Mr Anwar said compensation would be paid in some instances and all existing contracts would be honoured. But he said the Malaysian government was under no obligation to abide by memorandums of understanding and letters of intent with British companies.

However some contracts already signed are the first phase of more extensive agreements. Mr Anwar said Malaysia would still be taking delivery of 28 British Aerospace Hawk aircraft - a deal which formed part of the controversial 1988 MOU on defence sales agreed between Dr Mahathir and Mrs Thatcher.

But question marks arise over a comprehensive maintenance and technology transfer agreement allied to the Hawk contract. Clearly some agreements are going to be very difficult to unwind.

Mr Anwar said only government contracts will be affected by the Malaysian move, but many private deals are also likely to be in jeopardy.

Many of Malaysia's biggest companies - some involved in joint ventures with British companies - are closely connected with Dr Mahathir's United Malays National Organisation (UMNO), the country's dominant political party.

Britain does have some leverage: Malaysia exports well over \$1bn worth of goods to Britain each year and the trade surplus is substantially in Malaysia's favour. Britain is the main export market for the Proton, the Malaysian car manufactured in conjunction with Mitsubishi of Japan.

But confident in its own economic success, Malaysia is not concerned about the fallout. When John Major visited Kuala Lumpur last September, he announced that British companies were negotiating contracts worth \$1bn which could secure 25,000 UK jobs.

Mr Anwar's answer on those negotiations was unequivocal: "Virtually all those contracts will not be approved," he said.

## Like Australia, Britain may be forced to concede an apology

## PREVIOUS ROWS

By Kevin Brown

British officials displayed a stiff upper lip in response to Malaysia's action yesterday.

Aides to Mr John Major, the prime minister, dismissed talk of retaliatory sanctions, insisting it was "far too early" to say how Britain might respond.

"The British government does not tell the British press what to write, and our trade relations with Malaysia really have nothing to do with what the British press decides

to print," said a senior official. However, Downing Street is uncomfortably aware that Dr Mahathir Mohamad, the Malaysian prime minister, has placed successful bets on this course before.

Attention in Britain has focused on the "Buy British Last" row in the early 1980s, when Malaysia instituted a near-boycott of UK goods in retaliation for London's decision to end subsidies for foreign students.

The dispute was eventually ended after a long campaign for better relations by Mrs Margaret Thatcher (now Baroness Thatcher), who was

then the British prime minister. Lady Thatcher later described her close relationship with Dr Mahathir: "I hope that I am not presuming in describing him as a friend, whose counsel I have found invaluable, as well as a very skilful and tough negotiator for Malaysia's interests."

But that row was over an issue of substance - the cost of sending Malaysian students to London. The new row, triggered by Malaysian dislike of British press reports, has more in common with two other disputes, which had different endings.

The first blew up in 1980, when Dr

Mahathir took offence over a fictional drama series, called Embassy, broadcast by the Australian Broadcasting Corporation (ABC). The series, set in an Australian embassy in a fictional south-east Asian country called Ragan, was filmed in Fiji and did not mention Malaysia.

Nevertheless, Dr Mahathir interpreted the programme as an insult to Malaysians, and threatened to retaliate with a trade boycott against Australia.

Initially, Mr Bob Hawke, then Australian prime minister, took a similar line to Downing Street -

that the government was not responsible for what the ABC chose to broadcast.

But the row escalated until Mr Hawke went to Kuala Lumpur in 1981 to deliver what was seen in Australia as a demeaning apology.

Last year Malaysia made life equally uncomfortable for Mr Hawke's successor, Mr Paul Keating, who was unwise enough to describe Dr Mahathir as "recalcitrant" for refusing to attend a Pacific Rim summit in Seattle. Dr Mahathir imposed restrictions on contacts with Australia and hinted that he might downgrade diplomatic relations. Again, the row

was ended by an Australian apology, reluctantly delivered by Mr Keating.

Then, as now, Dr Mahathir, chose to lay most of the blame on the media: "Some newspapers made me out to be a difficult person and very unpopular and that Malaysia was about to burst into racial violence," he said.

"How can Australia claim to be part of Asia when Australian journalists lack manners?" But Mr Keating eventually wrote a personal letter to Dr Mahathir and twice publicly expressed regret for his remark. Nonetheless, it was felt in Australia at the time that damage had been done to

business confidence in the relationship.

Aides to Mr John Major know that there would be great political dangers for the British prime minister if he was forced to deliver anything approaching an apology to the row.

Whether Dr Mahathir will push the dispute that far is not clear. But his brinkmanship with Australia shows his determination to avenge anything seen as a slur. "Sometimes you have to be a bit notorious to be a bit famous," he said last year. "In order to be known, you have to be nasty."



## THE MALAYSIAN TRADE BAN

## Companies fear losing a shop window

By Tony Jackson and Andrew Taylor

The Malaysian government's boycott of British goods has caused widespread alarm among UK companies. The main threat, however, seems largely confined to three industries: construction, defence and power generation.

For the UK economy as a whole, the sums involved are fairly small. Malaysian government's imports of British goods total about \$500m (\$42.5m) a year, or less than 0.5 per cent of total UK exports.

However, UK companies also undertake several billion pounds worth of contract work in Malaysia on projects which range from power plants to airfields. More important, some British companies argue that Malaysia is an important shop window for their activities in the fast-growing and crucially important Asia-Pacific market.

Officially, the ban on British goods extends only to government orders, with the private sector left free to buy as it chooses. However, British companies with experience of the region are nervous that the private sector might follow the government's lead.

Construction companies are alarmed at the prospect of being excluded from one of Britain's biggest Far East construction markets outside Hong Kong.

British contractors are working on projects worth more than \$1bn in Malaysia. Orders worth several times this amount are in the pipeline. The largest is the new \$3.5bn Kuala Lumpur International airport at Sepang, where a consortium of Trafalgar House, Balfour Beatty and GEC from the UK, and Marubeni of Japan and Gannan of Hong Kong,

has produced a master plan and development studies.

The consortium, under a memorandum of understanding with the Malaysian authorities, had been expected to manage the airport construction. This contract now may have been lost along with other opportunities to bid for work on the project.

Balfour Beatty, separately, has won a \$70m civil engineering contract for the airport.

Other construction contracts pending include \$500m of rural water projects (North West Water has already won a \$1.25bn contract involving the privatisation of the country's waste water system); the \$400m Sultan Salahuddin thermal power station in the south of the country; a \$160m steelworks at Gunawang; and several hundred million pounds of road contracts, including some privately financed toll motorway sections.

Taylor Woodrow has previously advised on the private financing of sections of the strategic north-south highway, Costain, which has no contracts in Malaysia, said yesterday that it was bidding for a \$120m section of the country's east-west highway. It was bidding for other work in the country worth \$1.3bn including \$500m worth of work on the new airport.

Both Balfour Beatty and Trafalgar House are involved in the controversial \$470m Pergau dam project which is being built by a consortium of Trafalgar House and Balfour Beatty from the UK and Kajiyah, a Malaysian company.

Trafalgar House regards Malaysia as an important base to break into other south-east Asian markets. It is in the process of establishing a steel fabrication plant in a joint venture with Edaran Otomobil Nasional to supply steel for construction to the region.

British industry reacts: disappointed and the press gets some blame

BB

"We have been working on the ALAC Kuala Lumpur airport project for two and a half years and were expecting quite a few major contracts to follow on from our involvement. These will obviously not now materialise."

Balfour Beatty



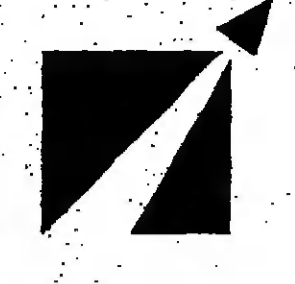
"We want to work with Malaysia because it has high-quality people and the economy is going very well."

Alan Jones, Chairman, Westland helicopter group



"Malaysia is a very important country to us. BAA has won some \$200m-250m worth of defence business in Malaysia. It is our third biggest defence export market after Saudi Arabia and Indonesia."

British Aerospace



"We were hoping that there would be future business opportunities and we felt we were in a good position to bid for future contracts."

BAA, which was eyeing possibilities to win airport terminal management business as well as airport retailing activities



"I support a free press. But in other countries they print facts rather than innuendo."

Mike Hoffman, Chief executive, Thames Water



"The British press ought to be proud of what it has done in bringing to light the link between aid and trade."

Andrew Neil, Editor, Sunday Times

## Sharp attack on UK ministers by MPs

UK REACTION

By David Owen

The government's handling of the Pergau dam project came under sustained attack in the House of Commons yesterday, with Labour blaming ministers for the decision to ban British companies from bidding for Malaysian government business.

Mr Jack Cunningham, shadow foreign secretary, said it was because of the government's conduct that Britain now faced "these very serious consequences."

He said Mr Douglas Hurd, the foreign secretary, had denied there was any link between Pergau and a Malaysian arms deal - "a statement we now know to be untrue."

In fact, at the same time as British companies were engaged in discussions about Pergau, some of the same companies were discussing aspects of the arms deal, Mr Cunningham said.

"Is the country expected to

believe that expenditure of £4 bn of taxpayers' money was being promised to a government at the same time as an arms deal was being negotiated with that government and there was no link between them?" he asked.

It would never be possible to build a successful economy on "squalid if not illegal" deals like this one.

Mr David Steel, Liberal Democrat foreign affairs spokesman, said the "blast and blather" from Malaysia suggested that they "may have something to hide."

The Malaysian government's objections were to British press stories about funds allegedly paid by British contractors into Swiss bank accounts on behalf of Malaysian politicians, he said. No MP was in a position to know whether or not these were true.

Concern on the Tory benches focused on the possible consequences of yesterday's move on British jobs.

Mr Michael Jopling, a former minister, said many in British industry would be "totally per-

plexed" to find their jobs put at risk because of the activities of a free press.

Mr Michael Shersby, a Tory member of the public accounts committee, said there was nothing illegal in the Pergau deal.

Mr Hurd had pressed on with the transaction "because he did not wish to renege on undertakings" given to Malaysia by Lady Thatcher when she was prime minister.

Mr Alastair Goodlad, foreign office minister, said relations with Malaysia would "undoubtedly have been damaged" if Britain had backed out of the deal.

Mr Hurd had looked at the project in the light of commitments to continue to assist Malaysian development and the wider context of bilateral relations between the two countries. It was the government's task to promote the national interest, including exports and jobs.

Mr Goodlad said there was no good reason for the Malaysians to make a connection between British press reporting and the conduct of trade.

## Row may sour business in Asia

BRITAIN IN ASIA

By Alex Nicol

Is the British government fumbling away the prospects for UK business in the world's most dynamic economies?

The nerves of British businessmen who see European, Japanese and US competitors forging ahead in Asia, often with substantial collaboration from their governments, can only have become more frayed after a week in which official relations with Malaysia and China have dramatically deteriorated.

The announcement yesterday that British companies will not be considered for Malaysian government contracts comes hard on the heels of warnings from Beijing over its future with UK business. China stopped short of imposing sanctions but it has said UK business is bound to be affected by the dispute over Hong Kong, which deepened further this week.

Although the performance of British companies has lacked lustre in some parts of Asia, here are two countries in which they have been doing well and have been well-positioned to make further progress. In both countries their efforts have been supported by high-level government trade missions as part of the policy of Mr Michael Heseltine, secretary of state for trade and industry, to co-ordinate more closely with business in boosting exports and investment.

Britain's colonial heritage appears to be both a blessing and a curse in its efforts to participate in Asia's rapid growth. On the one hand, it has given many British companies experience and contacts in the region. On the other, it has left a legacy of sensitivity to the former imperial power.

Mainly thanks to Hong Kong, UK and UK-linked companies have a reasonably strong and growing presence in China, which is seen by companies around the world as the country in which they must not miss out because of its size and extraordinary potential.

But China's deep suspicion of London's ulterior motives has been obvious throughout the negotiations over Hong Kong, even after reversion of sovereignty to Beijing was sealed in the 1984 Joint Declaration. Chinese officials see the



IN HAPPIER TIMES: Dr Mahathir Mohamad, the Malaysian prime minister, with Mrs Margaret Thatcher, then his British counterpart, in a picture taken in London nearly seven years ago. Both leaders were of one mind in seeing the value of governments and private-sector companies operating effectively as one in forwarding the national interest of each country involved. This is a kind of co-operation well understood in south-east Asia.

proposals of Mr Chris Patten, Hong Kong's governor, as an attempt to perpetuate Britain's influence after the 1997 hand-over.

The accounts of last year's 17 fruitless rounds of talks on Mr Patten's plans show the negotiations to have been a dialogue of the deaf. The fundamental differences in the starting positions of the two sides made concessions by either side futile.

However, many businesspeople in Hong Kong and Britain believe that Mr Patten and the British government have unnecessarily provoked China through a combative approach. They doubt the usefulness of Mr Patten's stance, given that Hong Kong business is already adjusting itself to Chinese sovereignty regardless of politics, and that Beijing says it will reverse his reforms anyway. The Hong Kong business community appears unconvinced by the argument that free and fair elections will be the best underpinning for Hong Kong's continued commercial success.

It especially feels that the British government's effort to make an honourable exit from Hong Kong will not have been worth it if it substantially weakens Britain's longer-term prospects in China.

The Malaysian dispute is very different, not least because of the strong UK governmental involvement in the private-sector contracts involved, whether through defence or official financing. If the colonial legacy is an exacerbating factor, it lies in Malaysia's persistent sensitivity to what it sees as the west's attempts to impose its own standards on the developing world.

Since Malaysia's independence from British rule, Britain's fortunes there have fluctuated. Statutory teaching of English, once banned, has been re-instituted. UK companies were warmly welcomed after the ending of the Bury British Last campaign in the 1980s but now may be frozen out again. Nor is Britain the only country to have fallen out with Dr Mahathir.

Kuala Lumpur must have difficulty understanding how governmental deals which clearly benefited both sides have become so exposed to public scrutiny. The agreements were of the sort which south-east Asian governments understand, in which governments and private-sector companies - with or without links to ruling parties of long standing - operate effectively as one entity in forwarding the national interest.

London's attempts to explain the agreements will have been as unimpressive in Kuala Lumpur as they have been in Britain.

Yesterday's move by Kuala Lumpur will leave British companies nervous not only about their prospects in Malaysia but also about the impact of the present dispute in other south-east Asian countries in which they seek infrastructural contracts which need involvement by governments. They will wonder how well-equipped is the government in London to promote and then to defend their interests.

FINANCIAL TIMES MAGAZINES

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# INVESTORS CHRONICLE

## THE CITY INSIDE OUT



## NEWS: UK

# Businessman fined £120,000 for BCCI fraud

By John Mason,  
Law Courts Correspondent

Mr Mohammed Baqi, the former managing director of Attock Oil, was fined £120,000 at the Old Bailey yesterday after being convicted of conspiring to defraud the collapsed Bank of Credit and Commerce International by \$90m.

Mr Baqi was found guilty on six counts of conspiring to furnish false information but acquitted on a further two similar charges. The judge ordered him to pay \$50,000 towards the costs of the prosecution and \$70,000 towards his legal aid.

Judge Neil Denison, explaining why he was not jailing Mr Baqi, said the businessman had been used by more powerful men in BCCI and they had escaped justice. Mr Baqi had neither sought personal gain nor intended to cause loss to the depositors of the collapsed bank, he said. The judge made no order to disqualify Mr Baqi

from being a company director. The conviction is the second successful prosecution brought so far by the Serious Fraud Office over the collapse of BCCI. Mr Sayed Ali Akbar, a former head of BCCI's international treasury division, was jailed for six years last September after confessing to 16 charges of false accounting involving \$748m.

During Mr Baqi's trial the prosecution outlined how he conspired with senior members of BCCI to help

them perpetrate the bank's multi-billion dollar international fraud by signing false audit confirmation requests and letters confirming Attock Oil owed management fees to the bank.

The prosecution said the effect of these was to confirm to Price Waterhouse, the BCCI auditors, that the bank was owed \$90m by Attock Oil, so creating a false impression of the bank's profitability.

The prosecution said the main perpetrator of this part of the overall

BCCI fraud was Mr Basheer Chowdry, a former manager with the bank's UK operations, with whom the Attock Oil head had regular dealings.

Mr Chowdry had left for Pakistan after the collapse of the bank in June 1991 and was now out of reach of the British authorities, the court was told.

During the trial lawyers for Mr Baqi said that he had been made a scapegoat for the collapse of the bank and questioned why he had

been prosecuted when staff from both Price Waterhouse and the Bank of England had failed to act when the signs of fraud started to emerge.

During cross-examination one Price Waterhouse witness admitted that his firm had failed always to use best-practice methods when auditing the BCCI books.

Mr Baqi left court yesterday without commenting. He is intending to return to live permanently in his native Pakistan.

## National pay deal for print industry

Unions and employers in the printing industry have concluded a new national agreement only a year after abandoning national bargaining, David Goodhart writes.

The British Printing Industry Federation said that agreement had been reached on an increase of £5 a week for a skilled worker and £4.85 and £4.43 for less skilled employees. The GPMU print union calculates that for most print workers the increase will represent a rise of about 3 per cent.

The deal introduces, for the first time, full flexibility between the employees in grades previously covered by the NGA craft union and those covered by the Sogat general union. It covers about 100,000 employees.

## Adas beefed up before sell-off

Adas, the government-owned farm advisory and research service which has been earmarked for privatisation, is to be given a sharper customer focus and tougher financial targets, Mrs Gillian Shephard, agriculture minister, announced yesterday.

The service's cost-recovery target for 1994-95 is being raised from 55 per cent to 60 per cent, with the rest covered by the government. The service will consolidate its 15 consultancy centres into seven units to meet this target.

The move will involve closing 18 local offices and will cut costs by 10 per cent.

## Advertisers urge media rules change

The Incorporated Society of British Advertisers has told the government that it can see "little justification" for the ban on national publishers owning more than 20 per cent of ITV companies.

The society said that public policy "should be directed towards enabling partnerships and mergers where they make commercial sense".

## Personnel groups vote to merge

Britain's two personnel professional organisations have voted to merge, creating the largest professional personnel body in Europe.

The Institute of Personnel and Development, which will have 73,000 members, will be established in July by the Institute of Personnel Management and the Institute of Training and Development.

## Pay scheme boost

The number of employees covered by registered profit-related pay schemes increased nearly 28 per cent to 1,570,100 in the final quarter of last year, the Treasury said yesterday.

## Company health

An award has been launched to find Britain's healthiest company. Promoted by the Wellness Forum, a group of leading companies, and sponsored by PPF, the private health insurance company, the award is aimed at encouraging workplace health programmes.

## Tories' battlegrounds to be tax and councils

By Kevin Brown,  
Political Correspondent

The Conservatives yesterday signalled that taxation policy and local government corruption will be the main battleground in the forthcoming local and European elections.

The Conservative tactics were flagged in hard-hitting speeches by Mr Kenneth Clarke, chancellor, Sir Norman Fowler, party chairman, and Mr Peter Brooke, heritage secretary.

Labour was surprised by the attacks, which carried the campaign to what is regarded as opposition territory.

The Conservative tactics reflect the government's determination to limit its losses in the two elections, which are expected to be extensive.

Mr Clarke told businessmen in Maidstone: "The Conserva-

tive party is willing to fight on the low-taxation issue any time and anywhere. We did last time, we will next time, the time after that."

The chancellor defended the public-spending cuts in the November Budget and insisted that he had raised taxes "only with great reluctance".

His message was aimed largely at convincing voters that the Conservative party remains committed to low taxes. "Our answer to those who ask 'Will taxes ever go down again?' is 'Yes, provided we control public spending,'" he said.

He said Labour had tried "to mislead statistics in a ridiculous way to try to revive the old myth that we tax the poor but not the rich".

Conservative officials said the thrust of Mr Clarke's

speech would be pressed home today by the prime minister at the Conservative local government conferences in London.

Sir Norman told a conference dinner that Mr John Smith, the Labour leader, was heading a "disreputable" campaign of "smear, smear and smear again" against Tory councils.

He accused Mr Jack Straw, Labour's local government spokesman, of making unproven allegations against Tory-run Westminster council, which was accused of gerrymandering in a recent district auditor's report. Sir Norman said Labour councils were responsible for the 10 highest council taxes in band C.

Mr Brooke, MP for the City and Westminster South, praised Westminster council's services, which compared favourably with neighbouring Labour-controlled boroughs.

Mr O'Reilly has subsequently raised his stake in Newspaper Publishing to 39.99 per cent, subject to approval from the Department of Trade and Industry, and is the single biggest shareholder. He has so far been denied representation on the board, however.

The consortium is arguing that access to MGN's production facilities and sharing of overheads will provide benefits to both businesses.

National Union of Journalists members at the newspapers fear that, if the bid is successful, there will be heavy job losses and editorial independence will be under threat.

The consortium has assured the independent directors that editorial integrity will be "sacrosanct".

## MGN bid set to be recommended

By Diane Summers

Directors of Newspaper Publishing, owner of the Independent and Independent on Sunday newspapers, are poised to recommend to shareholders a takeover bid from a consortium led by Mirror Group Newspapers.

The recommendation is likely to come on Monday, provided some remaining details can be hammered out at the weekend between the committee of independent directors and the consortium.

The consortium, which holds more than 40 per cent of Newspaper Publishing, includes El Pais of Spain, La Republica of Italy, and a group which founded the newspapers, led by Mr Andreas Whitam Smith, editor-in-chief.

The consortium raised its bid last weekend from 261.5p to 350p a share, in a mixture of cash and MGN shares valuing the company at £73.65m. The

bid was raised to match the sum paid earlier this month by Mr Tony O'Reilly's Independent Newspapers of Ireland for 24.99 per cent of the company.

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## BR criticised over tunnel collision

By Roland Adburgham, Wales and West Correspondent

British Rail's safety procedures are strongly criticised in a report published yesterday on the collision in the Severn rail tunnel which injured 135 passengers.

An investigation by the Health and Safety Executive says that the accident, in December 1991, could have been avoided, even though its precise cause is uncertain.

The report also condemns BR's implementation of its emergency plan which it says was "seriously wrong". It took more than two hours for rescue services to arrive and passengers "all experienced an unpleasant and lengthy delay".

In the accident, a regional Sprinter train ran into the rear of a London to Cardiff train in the 4.4-mile Victorian tunnel under the Severn estuary. There were 302 people on the two trains. The Sprinter's driver was seriously injured, as were five of the passengers.

Mr Robin Seymour, chief inspecting officer of railways who conducted the inquiry, says that after the 1988 Clapham Junction accident in London, when 35 people were killed, BR committed itself to a policy of total quality management. "It is disturbing to find so little evidence of its effects in practice here," he says.

He does not suggest railway managers and staff were negligent. But he says that, because

## Straw reports local gains

By Kevin Brown

Labour holds the largest number of council seats in England for the first time ever, Mr Jack Straw, shadow environment secretary, said yesterday.

Mr Straw said a dossier compiled by Labour showed that the Conservatives had lost 541 council seats in England since February last year, when Mr John Major, the prime minister, called for a "renaissance" in local government to bring back Conservative values.

The dossier shows that the Tory losses have occurred in every region of England and in every tier of local government.

Mr Straw said Labour held 7,543 council seats, compared with 7,408 for the Conservatives. He added that local councils had lost power to an increasing number of quangos.

The dossier shows that Labour controls 56 of the 124 major spending authorities in England, and is the largest party in two-thirds of authorities.

Labour controls the three main local government associations, including the district and county council organisations, which have traditionally had Conservative majorities.

The dossier sets the stage for the local elections in May, in which the Conservatives are widely expected to lose further seats.

It demonstrates that Labour's effective grip on local government will make it difficult for the party to make sweeping gains.

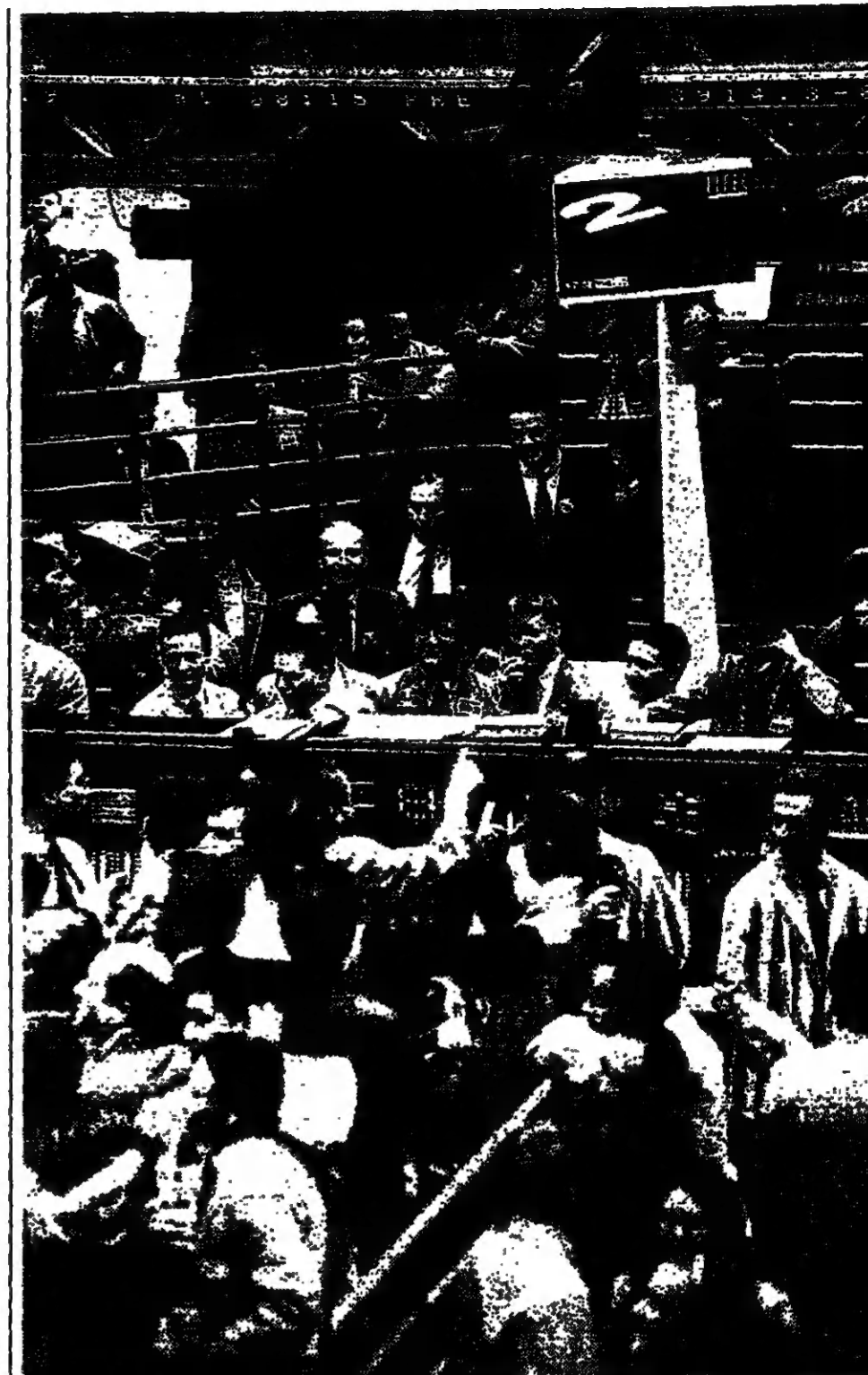
The dossier accuses the government of creating a powerful array of quangos which form "an unelected, unaccountable state which is now almost as large as elected government".

It says that quangos control £24bn of annual public spending which was formerly controlled or influenced by local government. Much of the transfer had been in education, transport, urban development, health and training.

Mr Seymour says that although the agreed plan for dealing with emergencies was broadly satisfactory, "the state of preparedness... failed to meet the expectations of the professional emergency services".

He makes 11 recommendations. BR said yesterday it accepted the inquiry's findings and was overhauling the tunnel's safety at a cost of more than £5.5m. The improvements were "well advanced".

Railway Accident in the Severn Tunnel. HSE Books, PO Box 1999, Sudbury, Suffolk CO10 6FS. £12.50.



Will Carling, England's rugby captain, yesterday rang the bell at the London International Financial Futures and Options Exchange to signal the start of trading in the FT-SE Mid-250 index futures contract, Joel Kibazo writes. The new contract is a rival to the Mid-250 futures contract which started trading on the screen-based OMLX exchange three weeks ago. One dealer said the Mid-250's first day of trading, with a total of 617 contracts dealt, had been "slightly disappointing".

## Gardiner facing election challenge

By David Owen

Sir George Gardiner, Conservative MP for Reigate, is to be challenged as chairman of the rightwing 92 Group.

With nominations for next month's elections due to have been submitted by last night, MPs familiar with the process said Sir Anthony Durant, the MP for Reading West, was expected to emerge as Sir George's principal challenger.

Ballot papers will be sent out next week and must be returned by March 11. The challenge to Sir George follows stiff criticism by MPs

in the group earlier this month of the botched handling of a meeting with Mr John Major.

Group members were vociferous in condemning the way the engagement was dealt with after the prime minister had been angered by publicity suggesting he was being offered terms for his survival as leader.

A delegation of 92 Group MPs emerged chastened from Mr Major's Commons office within minutes of arriving to demand urgent changes, although Sir George insisted that it was not "a brush off".

The PIA's committees will work and how they will be formed, and disquiet that the extra cost of the new regulator may not be reflected in higher standards.

Mr Greener suggests that the PIA should be made up of a 12-strong board of public-interest directors, supervising an executive committee of 10 people working in the industry "who know the nuts and bolts of the selling process".

As a designated agency under the financial services legislation, it would be scrutinised directly by parliament which would make recommendations to the government on how it should act.

In drawing up plans on training and competence, the PIA would look not only at what knowledge sales agents or advisers had of the subject and their products, but their application of that knowledge in advice.

While there is some support for Mr Greener's blueprint, it appears no more likely than the existing PIA prospectus to achieve a consensus support in a sector where incompatible views about regulation are strongly held.

## MPs' Lloyd's details disclosed

By Richard Lapper

The public will gain access to more details of MPs' involvement at the Lloyd's of London insurance market next week.

The new directory of members' interests to be published on Monday will disclose which MPs are Names - the individuals who provide assets supporting insurance market - and for the first time give details of which syndicates they support.

The directory will not, however, provide details of how much capacity the MPs provide to each of their syndicates, nor of their stop-loss insurance - a personal reinsurance policy which limits possible loss.

On the basis of the information contained in the directory it will be impossible to deter-

mine the exact extent of the MPs' exposure to losses.

A number of Tory MPs are known to be members of loss-making syndicates and will be affected by the market's expected £2bn overall loss for 1991.

According to the blue book, a Lloyd's publication which has a restricted circulation, at least 15 MPs were members of syndicates in the 1991 year. Among them are Mr Paul Marland, MP for Gloucestershire West, a member of loss-making Gooda Walker syndicates who has campaigned on behalf of loss-making Names, and Mr Peter Viggers, MP for Gosport, a member of the Lloyd's governing council.

Last year Lloyd's described reports that Tory MPs might be forced into bankruptcy by their losses at Lloyd's as "completely misleading".

## Companies run the rule over regulator

Less than a week after the publication of detailed plans for the new retail financial services regulator, the first completed application forms have already landed.

TSB Group, the UK's sixth-largest bank, has expressed its intention to join, and Standard Life has said that it is likely to do so in spite of its preference for a full-blown statutory system of regulation.

But in spite of such encouraging signs there has been no concerted rush by independent financial advisers, life insurance companies, banks and building societies to stand up and be counted as friends of the Personal Investment Authority.

Indeed, the call from Mr George Greener, chairman of Allied Dunbar and Eagle Star, two of the UK's largest insurance companies, for a period of consultation, suggests that he thinks many in the financial services sector are uneasy about the proposals.

Mr Joe Palmer, PIA chairman, insists that reaction has been more positive than merely grudging acceptance. "People have been reassured to some extent by what they've seen in the prospec-

## Alison Smith reports on the cautious reaction by the financial services sector to the Personal Investment Authority

has," he says. He acknowledges, however, that he cannot expect instant enthusiasm.

"These are very important decisions. People will need to study the documentation and then take the decision to their board. It's not a matter for an off-the-cuff reaction."

Many in the financial services industry would agree. There has been no word yet from Prudential, the UK's largest life insurer. Legal & General, another leading life company, has made it clear it will not put its head above the parapet.

Mr Michael Doerr, chief executive of Friends Provident, says he is disappointed with what he has seen in the prospectus so far although he has not ruled out the possibility of his company applying. The question will not go before the board until its meeting at the end of the month.

Mr Palmer agrees that the prospectus can set out only aims and methods, and cannot provide conclusive evidence of how the PIA will operate. He says: "The most important early test will be the effectiveness of the admission process."

However, the PIA has set no clearly defined targets for how many of the potential membership of 6,000 firms the organisation believes should fall because they do not meet the higher standards it intends to set. The development of training and competence standards in 1995 will be a further sign of its own effectiveness. In the meantime "there's the kind of relationship we have with the industry, and disciplinary and other decisions coming through".

At this hesitant time, Mr Greener's proposal could act as a catalyst in crystallising the concerns expressed by some in the industry. These have

focused on vagueness about how the PIA's committees will work and how they will be formed, and disquiet that the extra cost of the new regulator may not be reflected in higher standards.

Mr Greener suggests that the PIA should be made up of a 12-strong board of public-interest directors, supervising an executive committee of 10 people working in the industry "who know the nuts and bolts of the selling process".

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While there is some support for Mr Greener's blueprint, it appears no more likely than the existing PIA prospectus to achieve a consensus support in a sector where incompatible views about regulation are strongly held.

Only an immediate deadline seems capable of reconciling them.

## Post deal talks

Talks were adjourned last night between the Post Office and the UCU communication union on a national productivity deal for the Royal Mail.

## FT reporters win accolade

Financial Times writers Robert Peston, David Marsh and Jimmy Burns were highly commended yesterday in the Exclusive of the Year category of the National Press Awards for revelations last year about spending by the European Bank for Reconstruction and Development.

The weekly Warrington Guardian won three awards for its "remarkable" coverage of the town's IRA bombing. Editor Mark Rossiter was named Journalist of the Year, photographer Mike Boden won the image of the Year award and the newspaper was given the team journalism award.




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## NEWS: UK

# Sinn Féin wants talks link renewed

By Tim Cooney and David Owen

Sinn Féin leaders are to insist at the party's annual conference in Dublin this weekend that a direct channel of communication with the British government must be reopened if the Northern Ireland peace process is to move forward.

Mr Gerry Adams is today expected to use a keynote speech to refer to "positive aspects" of the Downing Street declaration but to stop short of giving the document his approval.

The Sinn Féin president will focus on what he sees as the declaration's shortcomings on the issue of Irish self-determination.

But as republican leaders responded favourably to this week's efforts by London and Dublin to address nationalist concerns about their joint initiative, Anglo-Irish tensions were heightened by an Irish High Court decision to free a terrorist suspect wanted for questioning over the murder of a soldier.

Mr Joseph Magee, 27, from Armagh, was released after Mr Justice Feurgus Flood ruled that the alleged offence of killing a soldier in Derby was a political one for which he could not be extradited.

Meanwhile, mounting unionist hostility towards the direction of the initiative was underlined when Mr John Taylor, a senior Ulster Unionist MP, urged his party leadership to boycott new political talks.

The IRA's political wing yesterday reacted positively to an article published in the Irish News, the Belfast-based nationalist newspaper, in which Mr John Major, the prime minister, made an eve-of-conference appeal to republican leaders to embrace the peace process.

Mr Mitchell McLaughlin, Sinn Féin's Northern Ireland chairman, said Mr Major's statement deserved "very, very careful study". He said the article - along with a number of recent speeches by senior ministers - had been "of assistance".

Mr McLaughlin said an offer of a temporary IRA ceasefire made last year during the secret negotiations between the British government and Sinn Féin was "still on the table".

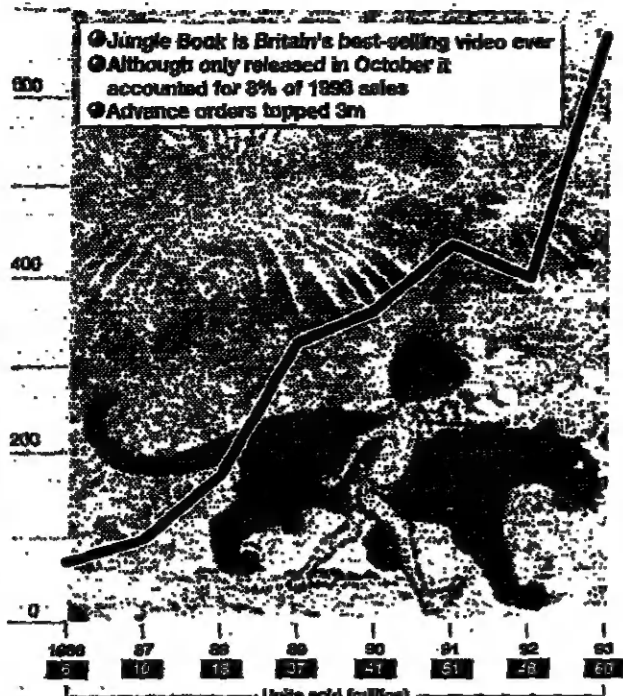
Mr Major emphasised in the article that the joint declaration left "no conceivable reason for continued violence" and that London would not "try to persuade people to go for Irish unity".

But he combined this uncompromising message with a vision of the possible outcome of political talks designed to reassure nationalists.

After yesterday's Irish High Court decision Mr Michael Mates, the former Northern Ireland minister, said the case was "another example of what we have been complaining about to the Irish for a long time. Their extradition laws are flawed. They have acknowledged they are flawed."

## King of the video jungle

Total video retail sales (£m)



## Energy Saving Trust faces threat from funding row

By Bronwen Maddox, Environment Correspondent

A new threat to the future of the Energy Saving Trust, one of the main planks of the government's environmental strategy, has emerged in talks between Whitehall departments.

Officials are concerned that the trust's investments, intended to reach £200m a year by the end of the decade, could be classified as public spending rather than private sector.

The trust, which is the largest single part of the government's plans for meeting inter-

national targets on global warming, is intended to find projects to help gas and electricity customers use energy more efficiently. The government wants British Gas and the electricity companies to pass on the project's costs through consumer bills.

However, the financing plans have met with fierce opposition from Ms Clare Spottiswoode, director-general of Ofgas, the gas regulator.

In Ofgas's annual report, published on Wednesday, she said that the regulator had an "overriding duty" to keep prices down, but some of

## Children's cartoons help video sales surge

By Michael Sclapinker, Leisure Industries Correspondent

The story of Mowgli, a boy brought up by some kindly wolves, a conscientious panther called Bagheera and a happy-go-lucky bear named Baloo helped boost UK video sales by 27 per cent last year to £622m.

The Walt Disney version of Rudyard Kipling's *Jungle Book* appeared in video form last October. By Christmas it had sold 4.5m copies, making it Britain's best-selling video. *Jungle Book* provided a substantial boost to what the industry calls "sell-through" - outright sale of videos as opposed to rental.

*Jungle Book* and several other Disney stories helped children's videos to capture 37 per cent of the UK market,

overtaking feature-film videos for the first time. The viewers might have been children, but the buyers were parents who first saw many of the films in the cinema when they were children.

*Jungle Book* made its cinema debut in 1968. Disney's *Peter Pan*, another of last year's best-selling videos, first appeared in the cinema in 1953. Other best-sellers, all Disney products, were *Beauty and the Beast* and *The Muppet Christmas Carol*.

The British Video Association said 60m videos were sold last year, 26 per cent more than in 1992. This means the number of videos sold exceeded music cassette sales for the first time. The number of cassettes sold last year was 56.7m. Video sales are, however, still some way behind

compact discs, which sold 92.2m last year.

Ms Lavinia Caroy, the association's director-general, said: "Long gone are the days when the video industry could be regarded as a poor relation of the cinema or record industry. It has grown up much faster than its elders and there is no reason to think this will not continue."

The association said feature films accounted for 35 per cent of the video market, with *The Bodyguard*, starring Kevin Costner, at the top of the list.

Videos of television programmes accounted for 10 per cent. Sport and fitness videos made up 5 per cent of sales, with *Cher Fitness* topping the charts. Music videos accounted for 4.5 per cent of sales, with the Manchester band Take That producing the best-seller.

## Appeal court upholds college strike ruling

By David Goodhart, Labour Editor

The Court of Appeal yesterday upheld a controversial High Court ruling which means that in future trade unions are likely to have to give employers the names of all members participating in strike ballots.

The decision drew strong protests from union leaders, who complained of an attack on civil liberties.

As a result of the ruling by Sir Thomas Bingham, Master of the Rolls, next Tuesday's one-day strike at 355 colleges of further education was called off by Natfhe, the college lecturers' union. The union has been in dispute for more than a year over the introduction of flexible contracts.

On Thursday Mr Justice Morrison granted an injunction to Blackpool and the Fylde College banning the strike because college employers had not been given the names of union members being balloted.

That decision was based on a change to the 1992 Trade Union and Labour Relations Act, which became law last summer, stating that a union must "describe the employees of the

employer" whom it is reasonable for the union to believe will be entitled to vote in the ballot.

Trades Union Congress and union officials say government ministers had indicated that the purpose of the clause was to prevent unions from surprising large employers over which groups of workers they planned to call out on strike, and that it was not about the naming of individuals.

Mr John Edmonds, general secretary of the GMB general union, said the decision was a further infringement of the civil liberties of union members and would ensure that the government was embarrassed by public censure from the International Labour Organisation at its conference in June.

In practice the decision is unlikely to be much more than a bureaucratic chore for unions, most of whom have the names and addresses of members on computer. Yet union officials say that naming those balloted invites pressure from employers and could involve a civil liberties issue where unions are not recognised and an employer does not know who is in the union.

That decision was based on a change to the 1992 Trade Union and Labour Relations Act, which became law last summer, stating that a union must "describe the employees of the

## Higher training targets called for

By Lisa Wood, Labour Staff

Employers yesterday warned the government that national targets for the attainment of vocational qualifications and their academic equivalents may be too low if the UK is to compete effectively in the future.

The warning came from the employer-led National Advisory Council for Education and Training Targets at a conference to present its first annual report on progress towards the targets. These were established by the Confederation of British Industry with the government's backing.

The council says that one of the main targets for the year 2000 is likely to be reached for 50 per cent of young people, up to and including 21-year-olds, to have reached a level-three National Vocational Qualification or its academic equivalent of two A-levels. At present 37 per cent of young people have reached this skill level.

The report suggests, however, that the UK should be aiming higher. "International comparisons point to the need to do so," it says. "In Japan 86 per cent of young people reached a comparable level in 1986 and in France the target is 90 per cent by the year 2000."

"Achieving 50 per cent - even before 2000 - is unlikely to bring a significant improvement in the UK's competitiveness."

Another target that may be too low, says the council, is that which aims for 50 per cent of the workforce to be qualified to at least NVQ level three or its academic equivalent by the year 2000.

Mr Peter Davis, Nacet's chairman, said yesterday that the council would be reviewing all the targets later this year after consultations. He said that additional targets might need to be established.

Mr Michael Heseltine, the trade and industry secretary, told the conference that winning in world markets depended on improving the skills of the workforce.

Mr Heseltine is preparing a white paper on international competitiveness, to be published in May. The role of improved skills is expected to be an important theme.

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## Visible trade deficit with non-EU countries widens

By Philip Coggan, Economics Correspondent

The visible trade deficit with countries outside the European Union widened to £758m in January, from £871m in December. Imports rose 2.4 per cent over the month to reach a record £5.88bn. Exports increased 1 per cent to £5.12bn.

Figures from the Central Statistical Office show that the trend in the volume of British trade is deteriorating, but this is being disguised by an increase in export prices. The so-called "terms of trade", the balance between export and import prices, reached a record of 114 in January (1990=100).

In the three months to January export prices were 2.5 per cent higher than in the previous three months. Import prices were unchanged.

The CSO estimates that, in value terms, the trend in non-EU trade has been for both exports and imports to rise by 1 per cent a month. In volume terms, however, exports are rising by 1 per cent a month and imports by 1 per cent.

In the three months to January export volumes, excluding

VALUE OF TRADE WITH NON-EU COUNTRIES					
Balance of payments basis, seasonally adjusted (£m)					
	Exports	Imports	Balance	Exports	Imports
1992	48,682	56,431	-7,749	40,824	46,027
1993	57,407	66,919	-9,512	49,510	57,530
1993 Q1	15,572	16,652	-1,080	11,667	13,858
Q2	14,144	16,305	-2,161	12,048	14,024
Q3	14,508	17,032	-2,524	12,636	14,497
Q4	16,186	16,960	774	13,500	15,051
August	4,658	5,800	-1,142	4,200	4,730
September	4,518	6,757	-2,239	4,215	4,584
October	5,257	5,819	-562	4,667	5,033
November	4,868	6,604	-1,736	4,328	5,005
December	5,005	6,757	-1,752	4,535	5,013
1994 Jan	6,117	6,878	-761	4,504	5,076

Oil and gas, aircraft, precision engineering and other. Source: CBO.

oil and gas, have fallen 1/4 per cent from the previous three months. Import volumes have risen 3/4 per cent. This has been partly caused by an unusually high export total in October.

Mr John Marsland, economist at UBS, said: "Without the support of improving terms of trade the prospects for the trade deficit in 1994 are bleak."

The main fall in exports in recent months has been in semi-manufactures and in food.

Basic materials and semi-

manufactures have been the main categories where imports have risen sharply.

If oil and gas items - such as precious stones and ships - are excluded, the deficit in January was £572m, compared with £478m in December.

Trade figures for non-EU countries are recorded separately from trade with countries in the union. Figures for the latter are used in the intrastat system based on value added tax returns and are reported later.

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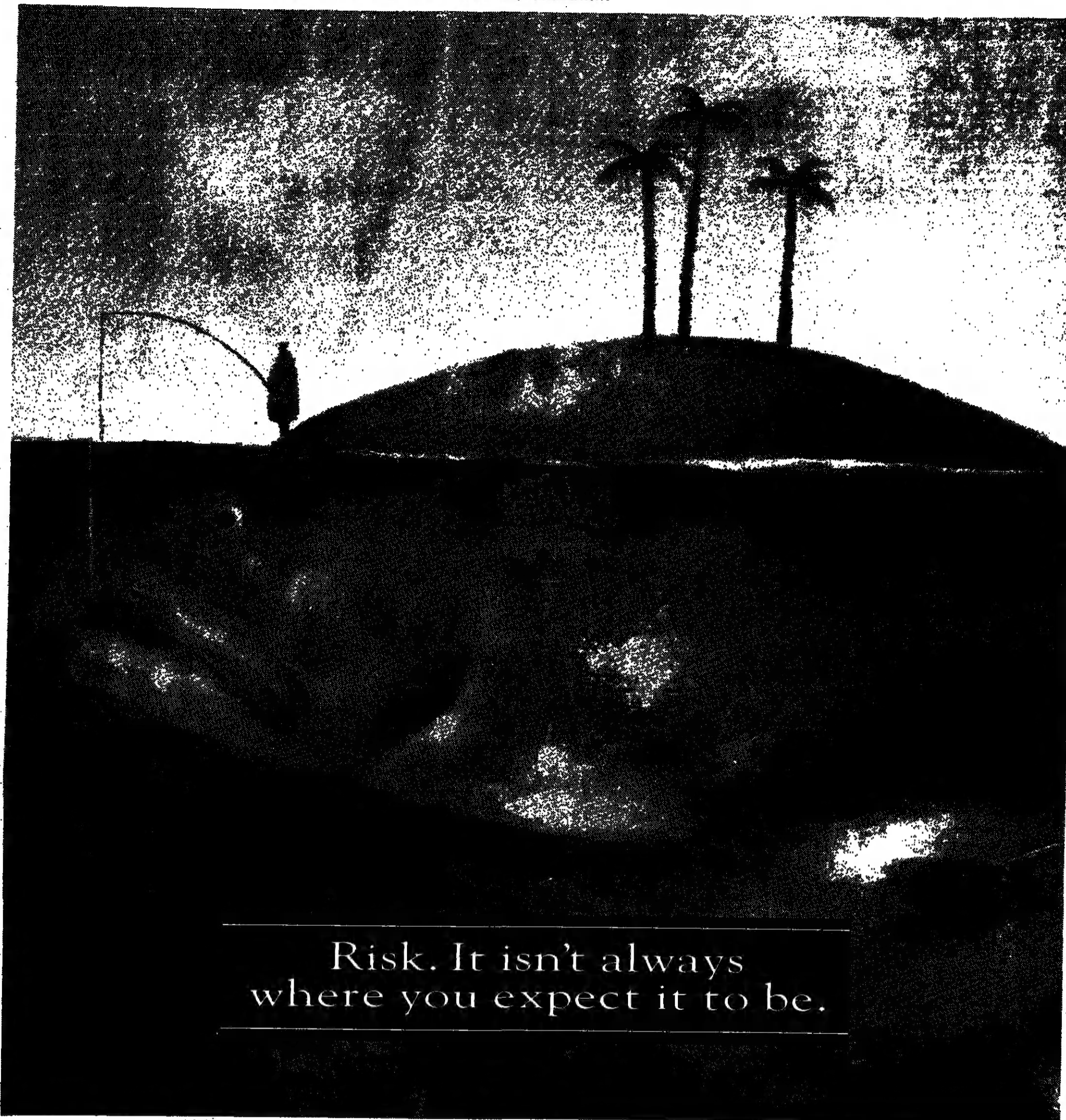


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## FINANCIAL TIMES

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Saturday February 26 1994

## Bond market's bull is gored

All good things, including global bull markets in bonds, come to an end. The question is whether now is such a time. It might be - not because inflation is about to explode, but because there is little reason to expect it to fall much further either. By the beginning of this year, nominal long-term interest rates had fallen as far as economic fundamentals justified. Given that, any shock should be enough to generate a correction.

The Federal Reserve's decision to raise short-term interest rates in early February provided just such a change. The caution about base rate cuts expressed by Mr Kenneth Clarke's six "wise men" this week may have added one for UK gilts. Realisation of just how cautiously the Bundesbank intends to lower interest rates may have had a similar effect on other European bond markets.

Two points about the background to the bond market correction must be remembered: the first is that nominal long-term interest rates had fallen to remarkably low levels by the end of 1993 and the second is that falls in recent years have been hugely rewarding.

In the US, for example, long bond yields bottomed out in October 1993 at 5.2 per cent, this being not only a sharp fall from the cyclical peak level of 9.3 per cent experienced in 1989, but also a level not seen since the early 1970s. Japanese long-term yields had fallen from 7.5 per cent in September 1989 to 3.5 per cent in January 1994, a level achieved once before, briefly, in 1987.

Even in Germany, records have been struck. The long-term interest rate reached 5.5 per cent at the beginning of this year, down from around 9 per cent in 1990. In the last 25 years, long bond rates have been below 6 per cent only in 1978 and 1988-87. As for the UK, long-term bond rates peaked in 1990 at nearly 13 per cent, before declining to just above 6 per cent in early 1994, levels not seen since the first half of the 1980s.

### Speculators' fortunes

After two miserable decades, during which long-term bond investors have been plucked like so many chickens, yields have plummeted to the levels of before the great inflation. In the process, speculators have made fortunes. The question is not so much why this may have stopped, but whether it made sense for the rally to go so far in the first place.

Start with the fundamentals. The long-term rate of interest ought to reflect the real rate of interest, plus inflationary expectations. A good indication of the former is provided by the British government's index-linked gilt, whose

yield fell to about 2 per cent in late 1993, down from a peak of 5 per cent at the time of sterling's expulsion from the ERM.

There are two reasons for this sharp decline. One, which is UK-specific, is the disappearance, following sterling's depreciation, of the expectation that the currency would have to depreciate. The second is the realisation that the global demand for capital would remain sluggish for a fairly long period.

### Profitable business

Bond yields could go much lower than they were, on a sustained basis, only if there were further downward revisions of inflationary expectations. How likely was this to happen? Rates of inflation in the US, for example, could average 2 per cent over the next decade, but they could easily average 4 per cent.

Speculation also enters the picture. If short-term rates of interest are below long-term ones, there is no carrying cost to borrowing short term in order to invest long term. If bond yields are expected to fall, this looks a highly profitable business. So it has been for US bonds.

The expectation of short-term gain cannot continue forever. A rise in the cost of short-term borrowing is likely to achieve precisely this result, by increasing the cost of speculation on further increases in bond prices and driving speculators from the buying side of the market.

The action of Mr Greenspan's Federal Reserve in early February simply picked the speculative element in the US bond balloon. Nothing he said this week suggests he is particularly worried about inflation. Nor, for that matter, were Mr Clarke's wise men. Speculation on further declines in bond yields looks more costly.

Since the real yield on index-linked gilts has itself risen by half a percentage point from its trough, the worldwide rise in bond yields can only be partly due to deteriorating inflationary expectations. Higher real rates of interest would reflect the end of speculation, but also the growing plausibility of recovery. Either way it is nothing to worry about, except, of course, for those who have been caught short.

The massacre of Palestinians during prayers at a mosque in the occupied West Bank town of Hebron yesterday is more than an enormous personal tragedy and a blow to Middle East peace hopes. Carried out by an American-born Jewish settler on a Friday in the Muslim holy month of Ramadan, the killings are also laden with symbolism which can be used by Islamic extremists throughout the region to stir emotions against Israel, established Arab regimes and their western allies.

The attack could not have been more critically timed to cut the ground from under the embattled Mr Yasser Arafat, chairman of the Palestine Liberation Organisation, whose leadership has been under increasing assault from within his own community since he agreed an outline peace accord with Israel last year.

Few debates are more anguished than that raging over the future of the Palestinian people. After more than four decades of struggle, bloodshed, occupation and exile, the Palestinians appeared to be on the brink of decisions which could decide their place in the Middle East.

Having said "no" to every proposed solution since the formation of the state of Israel in 1948, PLO leaders have begun to say "yes" to proposals which fall painfully short of the aspirations they nurtured for so long.

On September 13 in Washington the PLO signed a declaration of principles with Israel which provided for mutual recognition, and a series of signposts pointing in a number of different directions. Not only did the two sides disagree about where they are heading, but within Israel, and the wider Palestinian community, the range of opinions multiplied and diverged still further.

Yesterday's murders will have stirred a deep well of Palestinian emotion. But the strength of the declaration of principles still rests on the unstated fundamentals on which it was built. First, the Palestinian acknowledgment that the Arab inability to impose a military solution on Israel had been made absolute by the collapse of the Soviet Union. Second, that Israel wanted to rid itself of the Gaza Strip, a territory where the decline in living conditions has given birth to a more virulent form of Palestinian militancy which campaigns under the flag of radical Islam.

To combat those forces after withdrawal, Israel needed the PLO. Perhaps, after yesterday's killings, Israel needs the PLO even more. The coincidence of interest between Mr Yitzhak Rabin, Israel's prime minister, and Mr Arafat, brought the two sides together secretly in Norway and, ultimately, the two men to a public handshake in Washington. But behind the international applause, the flames of an internal Palestinian debate had been fanned into a blaze from which a new unity of purpose might be forged, or an even bigger disaster ignited.

Hero, or traitor? Pragmatic, wise, national leader, or vain, incompetent autocrat? The praise and accusations have swirled around the head of Mr Arafat for the past five months. In Tunis recently, as he sat in front of a wall-size colour photograph of Jerusalem, gun on hip and ball-point pens tucked into the sleeve pocket of his olive uniform, Mr Arafat appeared an unlikely subject for such strong emotions. He was worried about the slow pace of negotiations with Israel, anxious

Hebron's massacre may help secure a settlement if it prompts Israel to deal more flexibly with the PLO, says Roger Matthews

## Talks smothered by cry of outrage

about deadlines already missed, cheerfully dismissive of criticism ("that's Palestinian democracy at work"), and no more forthcoming in private about his intentions than he is in public.

Many Palestinians, including some who have worked most closely with him, would recognise the description. Mr Arafat plays his cards famously close to the chest. Purportedly representing nearly 5m Palestinians, some 2m living under occupation, only the tiniest number might claim at any one moment to know what is in the chairman's mind. Only three others are said to have been fully aware of the secret Norway negotiations with Israel. When Dr Haidar Abdel Shafi, the widely respected leader of the Palestinian team during 10 rounds of talks with Israel, arrived in Tunis last August for further instructions, it was to be told a deal had already been struck behind his back.

It is hardly surprising Dr Shafi later returned to Tunis at the head of a delegation with a petition demanding Mr Arafat should be more accountable. Or that Mrs Hanan Ashrawi, who was such a successful and prominent spokeswoman for the Palestinians after the Madrid peace conference in 1991, should have decided to pursue another career. Of the 18 members of the PLO executive committee, its highest policy-making body, a maximum of 10 now attend meetings.

Palestinian intellectuals, writers and journalists have unleashed a chorus of protest against their leader: "You cannot change an elephant into a lion by sending it a letter," roared Professor Edward Said recently. "Yet what we have is an intolerable mess: it cannot be allowed to continue." Unless Palestinians faced up to the leadership crisis they could be resigned "to a life of permanent oppression, without land, without a voice in shaping the future, without hope, even with pride, as the leadership stumbles from incoherence to incompetence."

While Prof Said, a leading member of the Palestinian American community, has adopted a scath-

**'You cannot change an elephant into a lion by sending it a letter,' roared Edward Said**

ter-gun approach to Mr Arafat's failings, other critics have been more selective, if no less damning. Some, including radical Palestinian groups based in Damascus, believe the September 13 agreement represents total capitulation to Israel. For them it is a betrayal of everything Palestinians have ever fought for,



A Palestinian protesting after the massacre of Arabs by a Jewish settler

and yesterday they again demanded a return to armed struggle. Others, such as Dr Shafi, dislike the agreement, but would like to see if it can be improved. Still more say they fear Mr Arafat is incapable of sharing power, will not delegate, and ultimately will frustrate Palestinian ambitions for an open, democratic system of self-government following Israel's military withdrawal or redeployment in the West Bank and Gaza. In short, he will be like most other Arab leaders.

Since September 13, Mr Arafat has had little ammunition with which to fire back. Today he may have even less. The Israelis did not begin to withdraw troops from Gaza and the West Bank enclave of Jericho as scheduled on December 13, and Mr Rabin said earlier this week that it could be at least another month before the pull-back begins.

Support among Palestinians for the peace process had declined sharply even before yesterday's events. That, too, is Mr Arafat's

fault, according not just to Mr Rabin, but also to the group of Palestinians around Abu Mazen (proper name Mahmoud Abbas) who masterminded the negotiations in Norway.

The Abu Mazen group ("We are known here as the Jewish agency," he said recently with a smile)

**Arafat is up against Rabin, who will not play a card unless he is assured of winning the trick**

believes Mr Arafat has wasted valuable time by trying to insert into the Washington accord more symbols of a nascent state. Abu Mazen has concluded that, because agreement is almost impossible on many long-term theoretical issues, such as a future state or the status of Jerusalem, the Palestinians should take

whatever they can on the ground and work from there.

A senior western diplomat in Tunis in regular contact with the PLO agrees, but argues that the delays are not solely Mr Arafat's responsibility. "There is no doubt that, to answer all the criticism, Arafat has been trying in every way he can to show that an independent Palestinian state remains his eventual goal. But at the same time he is up against Rabin, who will not play a card unless he is assured of winning the trick. The Israelis want peace, but only on terms set by them, and Arafat is coming to realise what that means."

Mr Arafat's frustration shows through with frequent references to his determination to prevent the creation of a Palestinian bantustan - an entity with the outward symbols of statehood but none of the powers. "The Israelis are tough, unbelievably tough," he said recently. "They make everything into a security issue, even small things which should be dealt with in just two lines. We need to get back the momentum, because the whole process is losing support."

Abu Mazen believed, at least until yesterday, that the momentum and the support for Mr Arafat could be won back the moment the PLO leader took his first step on to Palestinian territory. "There will be one million, maybe two million there to greet him. Israeli Arabs will be there and Jews from the Meretz party and the Peace Now movement. It will be a bigger event than the September 13 signing. All the support will come back to Arafat, but he must get there as soon as possible," he said.

After yesterday it might appear less likely that Mr Arafat will be heading soon to the occupied territories. But much will depend on how the Palestinian leader reacts to the Hebron massacre. And that, in turn, may rest with Mr Rabin.

Reports from Israel yesterday suggested that among many people there was a surge of shame and grief over what had occurred. For those most actively involved in seeking the implementation of the Washington accord, the killings were a tragic reminder of the need for speed and a swift withdrawal of Israeli troops from Palestinian centres of population, such as Hebron. The massacre further underlined the explosive potential of the Jewish settlements spread throughout the West Bank, Gaza and the Golan Heights.

If those factors contribute to a more flexible and generous Israeli approach to negotiations with the PLO, Mr Arafat and the September 13 agreement could survive in better shape than seems possible today. Close aides of Mr Arafat and western diplomats in Tunis equally have no doubt that he could walk away from the agreement, should he conclude that Palestinian national rights could not be secured under the present deal, or that too large a part of popular opinion was turning against him.

"Yasser Arafat is the only truly national leader we have," a close aide said recently. "There is no one else, despite all the criticism. Only he had the courage and the stature to sign the September 13 agreement. No one else could have got away with it. He also can break the agreement, if that is what is necessary, knowing how appalling the consequences will be, not just for the Palestinian people, but for Israel, and the rest of the Middle East."

## WOMAN IN THE NEWS: Colette Bowe

### Survivor in turbulent seas

In an industry where aggressive sales pitches - to the regulators as well as to customers - are a fact of life, Ms Colette Bowe, chief executive of the Personal Investment Authority, is earning a reputation for toughness. "She can stand up to the big boys," says a colleague on the PIA.

When planning was under way for the embryonic authority, the regulatory organisation to oversee retail financial services, Mr Mick Newmarch, chief executive of Prudential, the UK's largest life insurer, launched a bitter attack on the proposals. Last summer he called for a full-blown statutory system of regulation.

Ms Bowe kept quiet at the time. Even now, it is only through a colleague that the degree to which she was "pretty fed up" has emerged.

Then, Ms Bowe was in charge of retail financial services at the Securities and Investments Board, the City's chief watchdog and the PIA's parent regulator. She moved to her present post in January when it was still not clear whether the dispute over the composition and role of the PIA would result in it being stillborn.

There was agreement among the industry's practitioners that a single regulatory organisation was needed to replace Lauro and Fimbra, which oversee life insurance companies and independent financial advisers respectively.

But for months the PIA had been dogged by a series of setbacks. Its chairman, Sir Gordon Downey, had departed abruptly last autumn amid complaints about lack of progress. And there was a seemingly endless debate about the form of regulation and the standards of selling which should be applied throughout the industry.

Now the mood seems to have changed a little. Standard Life, a leading UK insurer, said this week that despite its preference for a statutory system, it was likely to join the PIA. Criticism has subsided in the wake of the authority's prospectus, released this week, which has contributed to a grudging acceptance that the PIA will come into being this summer.

This shift in attitude can be partly attributed to Ms Bowe's appointment. She is both a symbol and a cause of the PIA's new-found confidence. "The difference in staff morale has been tremendous," said one PIA board member.

Industry insiders believe she would not have joined a sinking ship, but they also acknowledge that her managerial skills have helped to put the ship on the right course.

Her talent for political survival was honed the hard way, as chief press secretary at the Department of Trade and Industry during the 1986 Westland affair. The row over the future of the UK helicopter company led two cabinet ministers - her boss Sir Leon Brittan and Mr Michael Heseltine, then defence secretary - to resign and almost caused the downfall of Mrs Margaret Thatcher.

Ms Bowe played a starring role. She leaked to the Press Association news group the extracts of a letter from the solicitor-general, which appeared to support the DTI argument for allowing Westland to link up with Sikorsky of the US. Mr Heseltine on the other hand wanted to find a European solution for Westland.

Ms Bowe, although cleared by a Commons select committee inquiry of any wrongdoing in leaking the letter, stayed only about a year at



the DTI, given the ensuing sour atmosphere at Westminster. So sensitive is the issue that even now she will not talk about it - she will not even discuss why she will not talk about it.

In 1987, aged 40, she was headhunted to join the Independent Broadcasting Authority, the commercial television watchdog, as director of information. Two years later - with the fortuitous timing that has become a hallmark of her career - she was headhunted again, by the SIB. Her job combined a public affairs function with a regulatory role dealing with investment management. A week after her move was announced, the government proposed abolishing the IBA, and replacing it with the Independent Television Commission.

At the SIB, which was in a formative period, Ms Bowe found herself implementing the financial services legislation which had been one of the main concerns of the DTI while she was press secretary.

Her civil service training of serving different political masters proved useful. She prospered under the contrasting regimes operated by Sir David Walker, SIB chairman until 1992, and Mr Andrew Large, his successor.

For much of Sir David's time, the SIB concentrated on rewriting rules for an industry which the regulators thought was made up mainly of "good guys". Mr Large's approach has been more sceptical and probing, scrutinising areas previously left relatively untouched, such as the suspect sale of personal pensions.

At the PIA Ms Bowe will have more scope for setting her own agenda. One former colleague who admires her as an administrator expresses some concern about her attitude towards investor protection. "She was at the SIB arguing against the Office of Fair Trading proposals to make sales agents disclose their commission," he recalls.

Ms Bowe's response to the debate about statutory versus self-regulation for the industry is instructive in its pragmatism. "The question I ask," she says, "is not whether it's statutory or self - but whether it's effective regulation."

She knows the Treasury and the SIB - her ultimate masters - see it as her job to deliver effective investor protection, and it is unlikely she would have taken on the role had she felt it was impossible.

Given her timely exit from her earlier job at the IBA, Ms Bowe's erstwhile SIB colleagues should perhaps be rather nervous. For one suggestion being floated by some financial services practitioners is to scrap the SIB and run single-tier regulation through the PIA alone. That is an unlikely outcome but before the PIA could conceive of becoming as powerful as the SIB, it first has to start work. Arousing enthusiasm rather than resigned acceptance in the industry is a priority. Ms Bowe must become chief cheerleader.

Alison Smith

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## Fall in demand batters profits at Bridgestone

By Paul Abrahams in Tokyo

Bridgestone, the world's largest tyre manufacturer, reported a 53 per cent fall in consolidated pre-tax profits, to ¥27.5bn (¥866m) from ¥79.5bn in 1992. Group sales for the year tumbled 8.4 per cent, from ¥1,745bn to ¥1,599bn over the same period.

The company is struggling with a collapse in demand in its domestic market, where it controls about 45 per cent of the car tyre sector. Bridgestone said demand from car manufacturers had fallen because of the poor state of the economy and increased imports.

The replacement market had also declined, it added. Domestic prices have been under pressure, and the group's product mix deteriorated as Japanese consumers increasingly traded down. Non-consolidated domestic sales fell 13.6 per cent from ¥745bn to ¥647bn.

The strength of the yen has prevented Bridgestone's domestic operations exporting their way out of trouble. Mr Iseki Masamichi, managing director, said the company would

exchange rate in 1993 was ¥112, up ¥15 on the previous year.

Non-consolidated exports fell 11.5 per cent, from ¥181bn to ¥160bn. Bridgestone said unit sales to Europe had fallen, but had increased to North America, Asia and Oceania.

Consolidated tyre sales fell from ¥1,324bn last year, to ¥1,151bn - the same as in 1992 - while turnover at the non-tyre operations fell from ¥421bn to ¥447bn.

Cost-cutting saved ¥20bn, but consolidated operating profits nevertheless fell 22.6 per cent to ¥28.2bn from ¥36.6bn.

Consolidated earnings after tax dropped from ¥24.4bn to ¥26.3bn, while earnings per share fell from ¥11.1 to ¥10.7.

The group forecast consolidated sales to reach ¥1,570bn this year, and that earnings would rise to ¥30bn. It predicted earnings per share would be ¥12.5.

The company dropped an extraordinary dividend of ¥2.5 per share paid last year, declaring a dividend of ¥12 per share.

## Sales surge helps lift Astra 53% to SKr7.8bn

By Christopher Brown-Hanzen in Stockholm

Astra lifted pre-tax profits by 53 per cent to SKr7.8bn (¥675m) in 1993, maintaining its momentum as one of the world's fastest-growing pharmaceutical groups.

The performance was powered by surging sales of the group's two main drugs, Losac and Pulmicort, and the weaker known.

The dividend was raised 60 per cent to SKr1.80 per share. The Swedish group is to establish an American subsidiary receipt (ADR) programme in the US from the autumn.

Sales climbed 45 per cent to SKr12.5bn. Excluding currency factors, the increase was 31 per cent, well ahead of the market's 5 per cent growth.

The group said earnings would again develop favourably in 1994, as sales continued to outperform the market.

However, it warned that the pace of the business would slow, because it would not derive the same currency benefits this year.

In the fourth quarter, pre-tax profits climbed 33 per cent, to SKr2.04bn, on sales of SKr3.5bn, up 50 per cent. The rate of profits increase slowed because of big currency gains in the final quarter of 1993.

Sales of Losac, an anti-asthma drug, surged 64 per cent to SKr7.11bn, while sales of Pulmicort, an anti-asthma agent with between 35 and 40 per cent of the European market, saw sales rise 55 per cent to SKr2.96bn.

Astra has emerged relatively unscathed from government clampdowns on healthcare spending. However, local currency sales in Germany, its biggest market, fell 3 per cent last year, compared with a market decline of 10 per cent. Sales growth of 44 per cent in the UK and 53 per cent in France helped to compensate for this.

Total group sales, excluding currencies, were up 35 per cent in Europe and 20 per cent in the US, compared with market growth of 2 and 4 per cent respectively.

## Watchmaker's car silences the sceptics

SMH chairman Nicolas Hayek talks to Ian Rodger about the Swatchmobile project

The very idea that a producer of watches could break into the high and expensive world motor industry is odd, in any the least.

But that is exactly what SMH, the Swiss watchmaking group, has done for its cheap and cheerful Swatches, is poised to do with an environmentally-friendly small car.

Even though Mr Nicolas Hayek, the group's irascible chairman, was a successful engineering consultant to the motor industry before rescuing SMH, his plans have always seemed more than a little sceptical.

The Zurich-based Mr Hayek has long been aware of this, but has gone on insistently touting the world for four years on the near-revolutionary merits of his so-called Swatchmobile. Consumers would love it, he said, and it would probably be on the market in three years, selling for about \$10,000. "That amount" is on the high side, he says.

There has been much speculation about his engine design. Mr Hayek says three different systems are being assessed. The aim is to produce a car that is not just a city runabout that has to be plugged in every

produces intriguing pictures.

A planned prototype unveiling in 1992 was cancelled. Then a mooted joint venture with Volkswagen collapsed last year.

Uncharitable observers began to wonder if the Swatchmobile was simply a stock market car, designed to put some zip into SMH shares whenever they sagged.

This week, however, all doubts disappeared. SMH and no less a player than Mercedes-Benz of Germany announced they were setting up a joint venture to produce the Swatchmobile. If all goes well - and that means getting approval from various boards and advisers at Mercedes - the car will finally be unveiled to a curious world at the end of next week.

Already, Mr Hayek has clarified the broad outlines of the vehicle. It will be a two-seater - "enough for two people and two cases of mineral water" - and will probably be on the market in three years, selling for about \$10,000. "That amount" is on the high side, he says.

There has been much speculation about his engine design. Mr Hayek says three different systems are being assessed. The aim is to produce a car that is not just a city runabout that has to be plugged in every



The Swatchmobile: official unveiling scheduled for next week

few hours, but also a vehicle you would drive from Zurich to Sicily in the same comfort you would expect in a normal car, he says.

Fine, but with virtually every important car manufacturer working hard on environmentally-friendly designs, what do SMH and Swatch bring to the party?

Answer they apply the same approach to car making as they do to watch making. They can be made much more cheaply, he says. "We can produce high quality at low cost."

Set prices low. "The idea behind Swatch is to have no target market. Everyone should buy them, from age six to 120."

The product should be sold throughout the world. While Swatch can be exported quickly and efficiently from its Swiss factories, Mr Hayek envisions Swatch

Miles will be manufactured in several countries, "and that does not exclude Great Britain". Once the deal with Mercedes is sealed, he plans quickly to take up an invitation to visit Mr Michael Heseltine, president of the UK Board of Trade.

The product should be "provocative", expressing "joy in life". "A Rolls Royce or a Jaguar is not just a car, it is a car plus something," he says.

It all sounds a tall order for the Swatchmobile, but it looks as if it will finally be fulfilled. Mr Hayek says SMH and Mercedes have been working on the joint venture for a year, and have resolved a lot of the problems that brought the discussions with Volkswagen to grief.

The concept has been approved throughout the Mercedes organisation. "A lot of detail work has been done," he says.

Mercedes will have majority control, but SMH, with 49 per cent, will have a veto on many issues, according to Mr Hayek. He claims the project is also well within SMH's means, so far taking up no more than 15 and 20 per cent of the group's cashflow.

"And if it is as successful as we hope, we will keep on investing."

## Toyota forced into ban on overtime

By Paul Abrahams

Toyota, Japan's biggest automotive manufacturer, has introduced its first overtime ban for assembly-line workers.

The move underlines the extent of the recession affecting the industry, and its difficulty in exporting, given the continuing strength of the yen.

The group stopped all overtime for production and office workers at its Japanese plants during January and February. It has not yet decided whether to introduce a ban during March.

The company, which reported a 47.7 per cent fall in pre-tax profits during the six months to the end of December, has also temporarily shut one of its 17 domestic production lines because of weak demand.

The shutdown, at its Motomachi plant in Toyota City, Aichi prefecture, happened last year. The group intends to

reopen the line, which makes mark II, in April.

Another line, at the Tahara plant in Aichi prefecture, had also been closed. The company has not yet decided when the line, making Celica and Corolla XLE, will be reopened.

Toyota's daily production had a peak of about 17,000 vehicles a day to 13,000. Japanese production fell 10.3 per cent last year, according to the Japan Automobile Manufacturers' Association (Jama).

The Japanese automotive industry is gaining little comfort from exports. In January, it recorded its 10th straight month of year-on-year decline.

Exports slumped 26.5 per cent compared with the same month in 1993, according to Jama. January exports of cars, trucks and buses fell to 390,416 from 531,349 in January 1993.

## Deficit at Woolworth drives down share price

By Richard Tomkins in New York

Shares in Woolworth, the US retailer, tumbled 11% to \$21 in early trading yesterday - a fall of 9 per cent - as the company reported a sharp reversal into losses in the fourth quarter to January 23.

Net income of \$188m the previous year turned into net losses of \$45m, on revenues down from \$3.15bn to \$2.82bn. Earnings per share of \$1.26 turned into losses per share of 36 cents.

Woolworth, which has been shedding its general merchandise stores and building up its specialty retailing businesses, stressed the results included a pre-tax charge of \$165m. This was associated with the sale of its chain of 120 Woolco superstores in Canada to Wal-Mart, the US stores group, announced last month.

The original announcement forecast that the charge would be just \$45m, mainly resulting from the recognition of currency exchange losses.

Yesterday, Woolworth said additional costs would arise from inventory markdowns, the sale of some stores not included in the Wal-Mart deal, and an unexpected delay in completing the transaction.

However, it said it benefited from a pre-tax credit of \$145m relating to the reversal of some charges taken last quarter - biggest component of the overall downturn, therefore, came from its trading activities.

Operating profits of \$266m last time turned into operating losses of \$21m. Woolworth said its operations in the fourth quarter were hit by disappointing sales and heavy promotional activity.

For the full year, sales fell to \$9.62bn from \$9.95bn. Net income of \$266m slid into net loss of \$45m, and earnings per share turned into losses per share of \$3.76.

## Setback to Rogers' media group bid

By Bernard Simon in Toronto

Rogers Communications' (NYSE:RGT) bid for Maclean Hunter, the Canadian publishing and cable-TV group, is mired in uncertainty after several surprise developments.

These events, including the 7 per cent cut in US cable-TV rates imposed by the Federal Communications Commission this week, have cast doubt both on Rogers' willingness to stick with its \$3.17-per-share offer, and on MH's ability to find a better alternative.

The uncertainty is reflected in a steep fall in MH's share price over the past two days. The Toronto-based publishing and cable-TV group was trading at \$15.50 yesterday morning, well below Rogers' offer of \$17 per share. The offer is open until March 15.

Mr Ted Rogers, Rogers' chief executive, was reported yesterday to have said his offer may be "too generous".

Analysts said the cut in US cable rates, as well as the subsequent collapse in Bell Atlantic and Telecommunications Inc. had significantly lowered the value of MH's extensive US cable franchises.

Rogers plans to dispose of these assets if its bid for MH succeeds. It will also distribute a portion of proceeds above \$1.5bn to MH shareholders. However, it has the right to rescind its offer if any material change occurs in MH's business.



Ted Rogers: reportedly said offer was too generous

ness. MH has separately been seeking a buyer for the US cable assets as part of a promise to maximise shareholder value.

It has so far spurned Rogers' overtures. However, its efforts to put more money into shareholders' pockets suffered a setback this week when Canada's finance minister closed a tax loophole which might have allowed MH to distribute proceeds from the sale of assets to its shareholders.

Outlets are sharply divided on the likely outcome of the battle.

A Toronto portfolio manager said yesterday this week's developments had markedly lowered MH's value. "The reality is that the world has changed," he said.

## Observers unshaken by bond shake-out

By Our Markets and Foreign Staff

The recent plunge in global bond markets has investors wondering if this is the end of the European bond rally. However, most economists still feel that once the upheaval is over, European bond yields can fall further as short-term interest rates are cut and inflation falls.

"Investors with a horizon longer than a few weeks should stick with the economic fundamentals, which point to a sustained rally," said Mr Julian Jessop, international economist at Midland Global Markets in London.

Although Europe lags the US economic cycle, the recent US monetary tightening fuelled fears that the pace of monetary easing in Europe would slow, and short-term rates in some countries could rise.

The UK market was especially rattled by calls for monetary tightening from Mr Nick

Knight, global strategist at Nomura, who has, until recently, had a reputation as a superbull. He warned that UK short-term interest rates might have to go up to 6 or 7 per cent by the year-end to defend sterling against the "sea of poor trade figures".

Others, however, feel there is little fundamental justification for the bond markets' panic, arguing that the slide was due to heavy selling by highly-leveraged investors, including US hedge funds, who had to liquidate bond positions after incurring huge losses in other markets.

"At the end of last year, a lot of funds flowed into these markets, and this is a very serious correction of that rally," said Mr Klaus Baader, European economist at Lehman Brothers in New York.

"The European economies won't stage a recovery this year. Inflation is heading down, rates are heading down... this all favours European bond markets."

However, many say bond yields are unlikely to return to their recent lows. One of them is Hermann Rempfer, chief economist of DKB Bank in Frankfurt, who has a turning point has been reached.

"The clear trend of the market has gone," he said. "Investment horizons will become much more short-term than was the case last year, and the opportunities for making profit will be much more limited."

Mr Graham McDewitt, bond strategist at market analysts IDEA, takes a similarly cautious view. "After this week's psychological impact on investors has been so great we don't expect them to return to the market with much conviction," he said. "I think a return to the low we have seen will be very difficult. The post-sell-off rallies will generally be disappointing."

Still, many expect Europe's bond markets to recover when

the European central bank eases course, and elections in Germany and elsewhere are out of the way.

"We still look for German 10-year yields to test the 5.5 per cent level after the German election," says Mr Julian Calow, international economist at Kleinwort Benson.

With 10-year yields around 7.10 per cent, Mr Calow also expects the UK bond market to stabilise soon. "As in Germany, domestic investors are likely to be attracted by yields in excess of 7 per cent while inflation remains subdued."

Meanwhile, US bonds should start stabilising around current levels, predicts Mr George Magnus, international economist at SG Warburg.

"We have long looked for the long bond yield to spike to 6.5 per cent to 6.75 per cent, and now here, feel the market has done most of the dirty work - though a spike to 7 per cent remains distinctly possible."

## Ousted metals group chief hits back

By David Walker in Frankfurt

Mr Helm Schmitt, the former chief executive of Metallgesellschaft, has hit back at the company's supervisory board chairman for an "orchestrated attack on my credibility" at the metals, mining and industrial group's special meeting on Thursday.

Mr Schmitt, who was sacked in December last year, told a newspaper that Mr Ronald Schmitt, the Metallgesellschaft Bank director who is supervisory board chairman at the German metals group, should have known the value associated with the oil futures trading activities of MG Corp, the New York-based trading subsidiary.

Speculative futures dealing at MG Corp led to losses of DM2.5bn (\$1.55bn), and drove Metallgesellschaft to the brink of insolvency.

On Thursday, Mr Schmitt blamed the company's near-collapse on the former management, claiming he had been wrongly misled by Mr Schmitt and other directors.

Mr Schmitt, who is believed to have been living chiefly in New York since he was dismissed, said he had frequently discussed MG Corp's oil futures trading activities with Mr Schmitt during 1992 and 1993.

He said the dialogue was partly in the context of a joint venture between Metallgesellschaft and Metallgesellschaft Bank, in which the bank tried to market an oil derivatives programme to the German industrial customers.

The aim of the programme was to reduce companies' energy costs, but joint presentations by the bank and Metallgesellschaft did not produce any business. The dialogue with the supervisory board chairman went further than this, Mr Schmitt said, covering MG Corp's strategy and financing needs.

Mr Schmitt said on Thursday that he was properly informed of problems at MG Corp until December 3 last.

Mr Schmitt claimed he had not known about a mismatch between commitments to hedge oil and the hedging strategy - the eventual cause of MG Corp's massive losses - until November 29. He had then thought the potential loss would be limited to \$200m.

Deutsche Bank yesterday refused to comment on Mr Schmitt's attack. Shareholders at the meeting, meanwhile, voted overwhelmingly for a DM3.4bn refinancing package.

## Increase at UBS brings bigger dividend

By Ian Rodger in Zurich

Union Bank of Switzerland, Europe's most highly-valued bank, has posted a heavy 68.9 per cent rise in 1993 consolidated net income, to SFr2.27bn (\$1.61bn). It attributes the surge to booming securities markets, and a big inflow of investment funds.

The directors are proposing a 10.3 per cent rise in dividends, plus the right to buy one new share or registered share at par for every 10 held.

Mr Robert Studer, chief executive, said he did not expect this year's profit before bad

debt provisions and taxes to equal the SFr2.27bn made in 1993.

However, net income could be higher, if provisions required by the extraordinary high levels of the past three years.

UBS bearer shares fell SFr38 to SFr1,413 in Zurich following the results, which were at the low end of market expectations. However, the group was still valued at SFr37bn, well above the SFr33.2bn of Deutsche Bank, the former European leader by market capitalisation.

Income trends seen at the

interim stage continued, with trading in securities and currencies showing by far the greatest growth, 78.5 per cent, to SFr2.9bn.

Income from services gained 27.8 per cent to SFr1.04bn. Among the services, income from investment counselling and asset management was up 30 per cent to SFr3.2bn.

Net interest income was up only 6.2 per cent to SFr3.6bn. Customer loans grew only 4.3 per cent, as more turned to the capital markets for their needs.

Operating expenses jumped 18.1 per cent, to SFr5.7bn, mainly because of perfor-

mance-related pay and early retirement schemes. Provisions for bad loans advanced 22 per cent, to SFr3.2bn, mainly due to the recession in Switzerland.

Total assets at the end of 1993 stood at SFr11.3bn, up a brisk 18.7 per cent. This was attributed to a 118 per cent jump in the securities trading portfolio, to SFr50bn.

Capital and reserves totalled SFr21.7bn. After dividend payments, UBS capital ratio will be 10.2 per cent. Return on equity was 11.5 per cent, above the group's mid-1990s target of 10 per cent.

## Southwestern Bell expands

By Frank McGarry in New York

Southwestern Bell, the aggressive US telecommunications group, has posted a heavy 68.9 per cent rise in 1993 consolidated net income, to SFr2.27bn (\$1.61bn). It attributes the surge to booming securities markets, and a big inflow of investment funds.

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## Australian miner cautious despite rise

North Broken Hill, the Australian mining and exploration group, yesterday reported a sharp rise in after-tax profit to the six months to the end of December.

The group's after-tax profit rose 100 per cent to A\$86.4m (\$63.5m), compared with A\$52.3m in the same period of 1992/93, writes Nikki Tait in Sydney.

However, it warned that lower profits were expected in the second half because there would be no contribution from its paper manufacturing and distribution business sold to A\$ in November. Lower prices negotiated with the Japanese steel mills would also affect the result.

Factors would partly offset by improved contributions from gold mining and the 68 per cent-owned Energy Resources of Australia.

## Strong final quarter checks Akzo fall

By Ronald van de Krol in Arnhem

Akzo, the Dutch chemicals group, succeeded in limiting the decline in 1993 net profit before extraordinary items to 2.7 per cent, thanks to a stronger fourth quarter and better results in the US.

The company, which yesterday changed its name to Akzo Nobel to reflect its recent takeover of Nobel of Sweden, said net profit before extraordi-

nary items fell 11.5 per cent (¥355m) from ¥1.712m a year earlier.

Extraordinary charges for restructuring and for book investments are included in both years, net profit fell by 18 per cent to ¥1.549m. Group sales were down slightly to ¥1.65bn, compared with ¥1.67bn.

The improvement in fourth-quarter net profit before extraordinary items, to ¥1.73m from ¥1.72m a year earlier,

compares with declines in the first two quarters, and barely changed results in the third.

Akzo, which is to leave its 20 per cent share in Akzo Nobel unchanged at ¥1.65, said the recession in Europe appeared to have bottomed out, and it predicted a positive trend for the company in 1994.

Pharmaceuticals put in the best performance of Akzo's four main businesses. The sector generated around 55 per

cent of Akzo's 1993 operating profit, even though it accounted for only about 20 per cent of turnover.

The chemicals and coatings sectors turned in roughly similar results, while Akzo's fibre business posted an operating loss of ¥1.21m, compared with a profit of ¥1.17m the year before.

The group's performance was hampered by difficult conditions in the European car and textile sectors.

## News Corp share inquiry

By Antonio Sharpe

The News Corp preference share saga moved on yesterday when the International Securities Market Association (ISMA), the Eurobond market's trade association, said it was investigating the matter with the Amsterdam, Frankfurt and Luxembourg stock exchanges, which the shares are listed.

The dispute between News Corp, the media, film and pub-

lishing group controlled by Mr Rupert Murdoch, and the bondholders erupted in this month when News Corp said they were not entitled to around \$15m (\$21.5m) worth of shares in Royal Doulton, the fine china manufacturer damaged last year from Pearson, owner of the Financial Times.

The decision contradicted a notice issued by News Corp in December which said that holders of its preference

shares, exchangeable for shares which News Corp held in Pearson, would get Royal Doulton shares when exercising their exchange right.

Isma said the events gave rise to serious investor protection issues.

They also raised the question as to whether the standards expected of borrowers accessing the international securities market had been properly met.



















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## STANDARD 2

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1982	108	1982	108	1982	108	1982	108
1983	109	1983	109	1983	109	1983	109
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1989	115	1989	115	1989	115	1989	115
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2012	138	2012	138	2012	138	2012	138
2013	139	2013	139	2013	139	2013	139
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2018	144	2018	144	2018	144	2018	144
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2020	146	2020	146	2020	146	2020	146
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2026	152	2026	152	2026	152	2026	152
2027	153	2027	153	2027	153	2027	153
2028	154	2028	154				

1	81.6	9	81.6	17	81.6	25	81.6	33	81.6	41	81.6	49	81.6	57	81.6	65	81.6	73	81.6	81	81.6	89	81.6	97	81.6	105	81.6	113	81.6	121	81.6	129	81.6	137	81.6	145	81.6	153	81.6	161	81.6	169	81.6	177	81.6	185	81.6	193	81.6	201	81.6	209	81.6	217	81.6	225	81.6	233	81.6	241	81.6	249	81.6	257	81.6	265	81.6	273	81.6	281	81.6	289	81.6	297	81.6	305	81.6	313	81.6	321	81.6	329	81.6	337	81.6	345	81.6	353	81.6	361	81.6	369	81.6	377	81.6	385	81.6	393	81.6	401	81.6	409	81.6	417	81.6	425	81.6	433	81.6	441	81.6	449	81.6	457	81.6	465	81.6	473	81.6	481	81.6	489	81.6	497	81.6	505	81.6	513	81.6	521	81.6	529	81.6	537	81.6	545	81.6	553	81.6	561	81.6	569	81.6	577	81.6	585	81.6	593	81.6	601	81.6	609	81.6	617	81.6	625	81.6	633	81.6	641	81.6	649	81.6	657	81.6	665	81.6	673	81.6	681	81.6	689	81.6	697	81.6	705	81.6	713	81.6	721	81.6	729	81.6	737	81.6	745	81.6	753	81.6	761	81.6	769	81.6	777	81.6	785	81.6	793	81.6	801	81.6	809	81.6	817	81.6	825	81.6	833	81.6	841	81.6	849	81.6	857	81.6	865	81.6	873	81.6	881	81.6	889	81.6	897	81.6	905	81.6	913	81.6	921	81.6	929	81.6	937	81.6	945	81.6	953	81.6	961	81.6	969	81.6	977	81.6	985	81.6	993	81.6	1001	81.6	1009	81.6	1017	81.6	1025	81.6	1033	81.6	1041	81.6	1049	81.6	1057	81.6	1065	81.6	1073	81.6	1081	81.6	1089	81.6	1097	81.6	1105	81.6	1113	81.6	1121	81.6	1129	81.6	1137	81.6	1145	81.6	1153	81.6	1161	81.6	1169	81.6	1177	81.6	1185	81.6	1193	81.6	1201	81.6	1209	81.6	1217	81.6	1225	81.6	1233	81.6	1241	81.6	1249	81.6	1257	81.6	1265	81.6	1273	81.6	1281	81.6	1289	81.6	1297	81.6	1305	81.6	1313	81.6	1321	81.6	1329	81.6	1337	81.6	1345	81.6	1353	81.6	1361	81.6	1369	81.6	1377	81.6	1385	81.6	1393	81.6	1401	81.6	1409	81.6	1417	81.6	1425	81.6	1433	81.6	1441	81.6	1449	81.6	1457	81.6	1465	81.6	1473	81.6	1481	81.6	1489	81.6	1497	81.6	1505	81.6	1513	81.6	1521	81.6	1529	81.6	1537	81.6	1545	81.6	1553	81.6	1561	81.6	1569	81.6	1577	81.6	1585	81.6	1593	81.6	1601	81.6	1609	81.6	1617	81.6	1625	81.6	1633	81.6	1641	81.6	1649	81.6	1657	81.6	1665	81.6	1673	81.6	1681	81.6	1689	81.6	1697	81.6	1705	81.6	1713	81.6	1721	81.6	1729	81.6	1737	81.6	1745	81.6	1753	81.6	1761	81.6	1769	81.6	1777	81.6	1785	81.6	1793	81.6	1801	81.6	1809	81.6	1817	81.6	1825	81.6	1833	81.6	1841	81.6	1849	81.6	1857	81.6	1865	81.6	1873	81.6
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# Weekend FT

SECTION II

Weekend February 26/February 27 1994

## Venice: the city sinking in lethargy

In the 27 years since the last great flood, there has been a lot of discussion but little action to save one of the world's great treasures, write David Lascelles and Robert Graham

It was in November 1966 that Venice was swamped by the worst floods for several centuries. The disaster woke the world to the perils facing one of the treasures of western civilisation. But today, more than 27 years later, not a stone has been laid to prevent a recurrence of the disaster, in spite of the combined problems of subsidence and rising sea levels which threaten the city.

"La città non ha fatto nulla. The city has done nothing," says Rinaldo Bruttomesso, director of Citta d'Acqua, the Venice-based association of waterfront cities. "The Dutch have built new barrages, London has built the Thames barrier. This city has nothing, only plans."

Bruttomesso is certainly right about the plans. In a spacious palazzo on the Campo San Stefano near the Accademia bridge, Francesco Bandarin, an architect, has a detailed design for Venice's sea defences. He works for the Consorzio Venezia Nuova, the government-appointed consortium of building and engineering companies which was charged nine years ago with the task of protecting Venice from floods.

He knows the problem in minute detail: the tidal currents, the type of barrage needed, the cost, the timescale for construction. The plan is for an elaborate system of barriers to close off the three large entrances to the lagoon, consisting of rows of giant hollow metal boxes fixed to hinges on the sea floor. When high tides threaten, they would be filled with air and swung up to hold the water back.

Across the square, Bandarin's colleague, Paolo Bacchi, occupies a building full of computers into which has been fed a mass of information about the Venice lagoon: depth, temperature, concentrations of pollutants, tidal charts. At the push of a button he can print-out maps showing whatever the inquirer wants to know.

But apart from a working model of the proposed barrage, the practical application has got no further. "We've already spent more time waiting for this project than it will actually take to build," says Bandarin.

Like much of what happens - or does not happen - in Italy, the blame for this state of affairs can be laid at the door of the politicians. In the aftermath of the 1966 disaster, the Rome government made a prompt response: it declared the city's fate a matter of national interest, and provided money to enable work to start not just on flood protection but also cleaning up the lagoon and restoring buildings.

Much has been achieved in these last two areas, partly with international sup-



Under threat: the Grand Canal in Venice. Can the city be defended against the waters without destroying the industry and wildlife of the lagoon?

Michael Dent

port. Many fine palazzos and churches have been re-opened. Shipping channels have been dredged, and water treatment plants built on the edge of the lagoon.

But Venice's problems have become increasingly caught up in the chaos and corruption of Italian politics. At the national level, Rome created a proliferation of laws and agencies to deal with its problems, but persistently postponed the big decisions. When the Consorzio produced its barrage proposals in 1969, the government sent them back because they were too intrusive. Rome wanted a barrier that lay entirely hidden underwater. So, in 1982, the Consorzio sent in revised plans which met these criteria. The plans are still in the government's in-tray.

At the local level, the highly politicised Venetian administration fought for state aid, not so much to protect the city as to have the money to disburse patronage and influence. During the latter part of the 1980s, Venice was cynically carved up between the Christian Democrats and Socialists with a tacit deal to let the volatile Gianni De Michelis, the Socialist foreign minister, become a latter-day Doge.

He, along with his entire Venice network, has been swept aside by the corrup-

tion scandals which have rocked Italy in the past two years. Several of these related directly to Venice: at one stage last year De Michelis was assailed by a hostile crowd.

But politics is not the whole story. The longer the delay, the more doubts have grown as to whether the grand barrier scheme is really the answer to Venice's problems. Time has enlarged people's understanding of Venice's predicament. Other perils have come to be viewed as equally threatening as the famous floods. The position has become much more complex, the priorities less clear.

Venice is now seen not just as a jewel to be saved but as part of a vast environmental and economic system represented by the Venetian lagoon. Any solution to Venice's particular problems must be balanced with regard to other interests. This 500 sq km of water, for example, is home to Italy's largest petrochemical complex, at Mestre, upon which 15,000 jobs depend. Anything that interferes with the free movement of traffic in the lagoon or activity on its shores could threaten their livelihoods.

The lagoon also receives the run-off - and thus the mess - from nearly 2,000 sq

km of the surrounding watershed. Then there are the less well-known problems of Venice itself: the shortage of housing and jobs which is driving away young people; lack of money to dredge the canals; absence of a proper sewage system.

The key point in the new phase of the debate is whether the barrage should be the top priority - whether it is even necessary. The Consorzio argues that it is. According to Bandarin, Venice now suffers from a mild form of flooding called *alta acqua* (high tide) more than 40 times a year, compared with only six times at the start of the century.

This is partly because of rising sea levels, partly because Mestre's industries have sucked out the ground water and caused Venice's foundations to sink. The combined effect has been to leave Venice 23cm lower in the water. Water laps above the impermeable Istrian stone which the resourceful Venetians used to build their foundations, and soaks the brickwork, allowing the damp to rise and attack the walls and plaster.

Bandarin calculates that the chances of a catastrophic flood have increased from once every 800 years to once every 200. But is that a sufficient risk to justify a project

equivalent to half a Eurotunnel?

Paolo Costa, rector of the University of Venice, who occupies an office in one of the palazzos overlooking the Grand Canal, says: "The idea of defending Venice from the sea is declining. It's technically difficult, and there is uncertainty about the size of the risk." People have learnt to live with high tides, he says. They move their precious things upstairs and put barricades across their doorways to hold the water back.

People have also begun to challenge the Consorzio's interest in the issue. They accuse it of deliberately stirring up fears of floods in order to win government contracting business for its members. It is certainly the case, as the Consorzio concedes, that Venice's sinking problem appears to have eased now that steps have been taken to halt the depletion of the aquifers.

But Bandarin raises the threat of global warming and the melting of the polar ice caps. "Do you see the sea being higher or lower in the years ahead?"

He also rejects criticism of the Consorzio's "big business" approach. "There's been a noticeable cultural shift in this office away from big engineering to incor-

porate environmental factors," he says. Some 60 per cent of the Consorzio's budget goes on environmental work, such as restoring wetlands and bringing lost sediment back into the lagoon.

But even among those who share the Consorzio's view that floods are the greatest threat, there is scepticism as to whether a barrage is the best answer. They fear the project would upset the ecology and tidal flows of the lagoon. Alternatives have been considered, such as filling in the shipping channels to staunch the flood tides, but, as Bandarin points out, the largest channel did not even exist at the time of the 1966 floods.

If support for the barrage is waning, what priorities are taking its place? The clean-up of the lagoon is the strongest contender. Although much has already been done to stop discharges of raw sewage and industrial effluent, water quality is still poor, even filthy at times. The problem lies not just with the local municipalities which are within Venice's control, but with distant towns and villages bordering rivers which feed the lagoon. Much of this pollution is agricultural nutrient which

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### The Long View/Barry Riley

## Trimming the hedges



gets out of hand.

This week we have seen the powerful impact of the unwinding of speculative positions in the global securities markets. Bond prices have been tumbling - the long gilt yield has soared from 6.5 to 7.3 per cent since the start of the year - and London's FT-SE 100 index took a dramatic 74-point dive on Thursday.

Such corrections generate all sorts of rationalisations. People argue that expectations about inflation have worsened, or that fears of rising short-term interest rates upset sentiment.

Ostensibly the trigger for all the damage of the past few weeks - which has seen Hong Kong's Hang Seng index tumble by 15 per cent from its peak, for instance, has been a modest quarter-point rise in dollar short-term interest rates. But what we are actually seeing is a reversal in which the markets are moving back to levels at which prices will again be set essentially by long-term investors.

A clue to the nature of recent events can be discerned in the role of derivatives. The biggest movements in the London stock market this week have been seen in the blue chips which make up the Footsie Index, which in turn is the basis of the Little futures contracts. Small capitalisation shares, in which there is no derivatives-based trading, have remained comparatively stable - although their prices are inherently more volatile because of poor liquidity.

Another clue is that different kinds of securities have been tumbling in price together. On Thursday, for instance, long-dated fixed interest gilts and index-linked gilts were falling sharply, just like equities. What has been happening is not a reappraisal of prospects for economic growth or inflation but an

upward shift in real interest rates.

This is the most fundamental of all measures of the return to investors, and it appears that so far there has been a rise of nearly half a percentage point in the real long-term interest rate since the end of 1993. Last year this rate declined, despite the surge in government and other borrowing around the world which might have been expected to lead to a shortage of savings.

Essentially what happened in the second half of last year was that large inputs of speculative money entered the international securities markets. Some of this was reflected in the banking statistics in the US and the UK, which showed a sharp increase in lending to securities firms and investment banks.

I have written before about the activities of US banks in making big profits out of the spread between 3 per cent money market deposits and bond yields of 5 or 6 per cent. An increasing role has also been played by the so-called hedge funds, of which the most famous is George Soros's Quantum Fund (which was this week reported to have lost \$800m on the recent unexpected jump in the yen against the dollar).

The name "hedge funds" is something of a misnomer. It certainly does not mean that they hedge their risks. Today's hedge funds are the ultimate in speculative offshore vehicles, ready to trade on any kind of financial market, and often in commodities as well, and prepared to leverage the risks and returns by taking on positions which are several times as large as their underlying capital.

Hedge fund managers receive hefty performance-related fees, often of something like a basic 3 per cent of funds managed, topped up with 20 per cent of any gains over a modest benchmark rate of return. There is thus a strong temptation to go for broke, because the managers can earn millions if their geared-up gambles pay off. If things go wrong investors can lose everything but managers only lose their jobs. Operators like Soros have been

playing this game for years but the talk recently has been of the establishment of several new hedge funds. Last year the profits were generally spectacular as markets around the globe trended higher, with a particular surge in the final quarter as new money piled in. The trouble is there are no statistics which might shed reliable light on the volume of this kind of speculative money (although *Fortune* magazine this week estimated that the worldwide total value of all kinds of derivative contracts is about \$16,000bn). Risks arising from major shifts or even panics can only be guessed at.

The activities of aggressive players on this kind of scale can lead to a kind of feedback - which Soros, an intellectual among speculators, has dubbed reflexivity. Rising markets suck in still more money until the bubble bursts; new hedge funds can find backers in these circumstances. The biggest of all these bubbles in terms of capital committed - although by no means in terms of size of capital gains - appears to have been in US Treasury bonds. Prices peaked out as long ago as last October, since when the interest rate on long-dated dollar bonds has risen by almost a full percentage point. The game subsequently shifted to European bonds, but this gamble is now coming to grief as well.

Naturally the market is buzzing with scare stories about the size of the losses suffered by some of the hedge funds and banks. The motive of Quantum Fund in disclosing a figure appears to have been to counteract some of the wilder rumours. There is no way of knowing how long the sell-off will continue. But in the bond markets, at least, yields have now climbed to levels at which long-term investors are going to start absorbing the paper being dropped by the short-term players. I would not be so confident about UK equities; the average dividend yield on UK equities offers too small a margin over the 3.5 per cent real yield on index-linked gilts.

There is trouble when speculation produces not liquidity, as in my textbook, but illiquidity.

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MARKETS

London

# Shares sink as the cash tide flows out

Peter Montagnon

I like a lion, I like a lamb. We shall see whether March's proverbial reputation applies to the stock market as well as the weather. Certainly the last week of February has been tempestuous with a net fall of 100 points in the FT-SE 100. Whether that makes the stock market a lion or a lamb is still shoring up for the government and companies, but the dam which has been supporting the reservoir of liquid assets sloshing about in world financial markets is cracked.

The crack which appeared when the Federal Reserve tightened three weeks ago widened last week to let through a flood of selling, particularly in the futures markets, (London)

ing to carry away bond and equity markets alike. It would be dangerous to spend too much energy trying to outguess what happened. There is little relevance to fundamentals if UK equities are falling because of forced selling by leveraged investors.

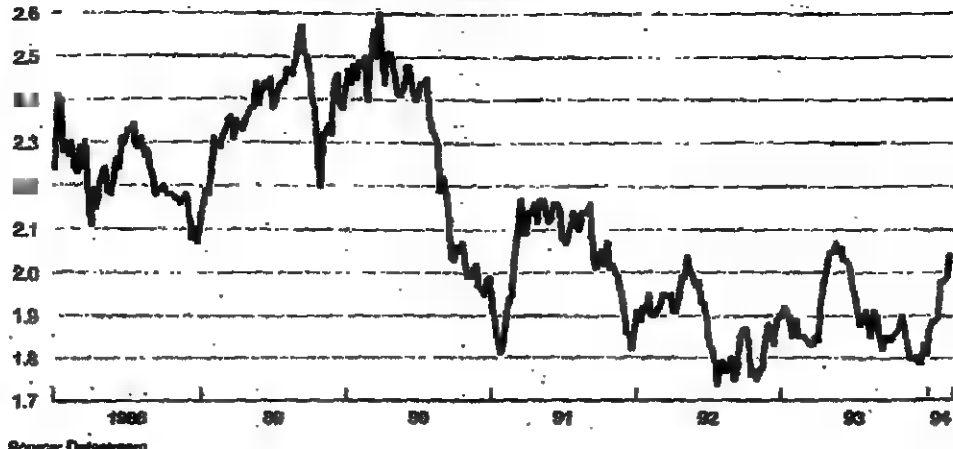
True, the worries in the New York bond market and a few choice words from the chancellor's panel of independent forecasters raised doubts about the UK economic trend. But none of the panel actually called for rates to increase, and it is hard to see that happening while inflation remains low and April's tax increases are as yet unimagined.

The yield on equities is almost exactly twice that on gilts which does not suggest they are particularly attractive.

Equities' relationship with index-linked gilts is less comfortable. The yield premium against five-year index-linked gilts has narrowed to only 1

## The equity/gilt yield ratio

Medium term gilt yield divided by FT-SE All-Share dividend yield



Source: Datastream

percentage point from 2.4 points a year ago.

That suggests equities have little room to forge ahead unless the gilt rally and real yields fall again. There is a chance of this happening once the hedge fund turmoil is over. With muted inflationary expectations, yields of around 7 per cent gilts are appealing. The premium of nearly a full percentage point over German government issues may also attract overseas money but it would be foolish to expect the hedge fund liquidity to reappear in a hurry.

Since equities are still trading on a relatively high price/earnings multiple of around 23 times, the focus may shift away from those stocks which benefit from falling interest rates towards those in manufacturing and engineering sectors which have genuine recovery potential.

Provided these can produce a strong earnings growth, there may be little need for worry. If not, more trouble may be ahead.

So far the company reported season has produced earnings just about in line with expectations, with dividends slightly ahead of expectations. The dividend record is distorted, however, by a few companies which have paid out exceptionally large increases. This picture is distinctly mixed.

British Aerospace increased its dividend by 18 per cent in spite of reporting a £237m pre-tax loss on Wednesday after an exceptional charge to cover further possible losses on aircraft leases.

The higher dividend reflects a swing in operating profits to a £228m profit from a loss of £50m in 1992, which seems to justify BAE's contention that it has finally turned round. The 8.3p dividend, though, is a long way short of the 25p paid as recently as 1991. The shares closed down 21p at 505p.

Exceptional charges pushed British Gas into a loss of £98m from a profit of £681m in 1992. Though it expects a 50 per cent gross return on its £1.65bn restructuring programme, the cash cost will be considerable when gearing is rising.

What with that, its price cap, the threatened loss of market share as competition develops and the low cover of 1.4 times, British Gas looks pushed to deliver real dividend growth. Its payment increased only marginally to 14.5p per share from 14.2p and its shares fell 23p to 318p.

Finally, the clearing banks decided to cash in their gains and float the venture capital group 3i on the stock market this summer. There will undoubtedly be considerable interest in what could become a new FT-SE100 company. Yet if the banks, who have waited long enough, think now is a good time to sell, it may not be the best moment to buy.

In the real world of manufacturing, ICI's trading statement on Thursday was marginally positive at best. Its 78 per cent increase in sales to £290m was boosted by the

effect of restructuring and exchange rate movements and the dividend was held unchanged at 27.5p. The shares fell only 20p to 764p on the week, perhaps because of earlier under-performance.

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## Serious Money

# The importance of a long-term view

By Scheherazade Daneshkhu

The falls this week in equity and bond markets should remind investors yet again how the value of their investments can go down as well as up. Many do not need reminding, of course - you do not need a long memory to recall the stock market crash of 1987.

Falls and rises of the order we have seen in the past few days are, in any case, very small compared with 1987. Indeed, it is too easy to regard every fall of any significance as a "crash" and every rise as a "boom."

This week's market movement should not upset investors unduly. Many who went into UK equities even as recently as the beginning of 1993 will have made sizeable gains.

But the latest decline underlines the importance of regarding equities as a long-term investment, precisely in order to be able to ride out temporary setbacks.

Unit and investment trust savers who have held their investments for five years, the fund will have a lock-in bonus which will be paid when they sell their units at any time.

Initial charge is 4.5 per cent and annual management fee is 1 per cent. Minimum investment is £2,000.

Launched in 1993, the unit which aims to limit the risk of investing in the stock market. The Objective Limited Unit Equity Fund will use derivatives to protect against stock market falls.

The fund is managed so that the bid price (that obtained by investors for selling units) at the end of each six-month period will not fall by more than 5 per cent. The initial six-month period starts on the first business day in October.

The fund managers say that, to reduce risk, they will spread exposure across the markets so that 50 per cent is invested in the UK and the rest is divided equally between the US, Europe, Japan and the Far East.

The fund shares a common ownership of all guaranteed equity products in the UK. Investor does not benefit from the full rise in the market - this is the price paid for the protective mechanism.

But, the guaranteed equity bonds which have a lock-in bonus which will be paid when they sell their units at any time.

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80 per cent of the value of the property). The five-year mortgage of 6.75 per cent had 6.95 per cent replaced with 7.39 and 7.59 per cent.

Halifax has increased fractionally its mid 7.2 per cent, five-year fixed rate to 7.35 per cent. But its 10-year rate has risen up from 7.5 to 7.65 per cent.

Yesterday, the National Westminster bank withdrew a number of recently issued fixed rates; one had been a particularly attractive 10-year rate of 7.59 per cent, which was lower than standard variable rates.

Leeds also withdrew another mortgage, this time its 25-year, 8.99 per cent fix.

Last week, I wrote that there was a danger good fixed rates would begin to disappear, especially since lenders were shifting the emphasis back to variable rate loans. This is partly because the margin on variable rates is much higher than on fixed rates.

Although six in 10 new mortgages are fixed rate, perhaps as many as 90 per cent of all mortgages are still on a variable rate. But if your lender offers a good fixed rate, there is nothing to stop you fixing all or part of the mortgage to give some security against rising interest rates.

Avoid those which are tied to insurance-related products and make sure you calculate if the costs involved in re-mortgaging are outweighed by the interest savings.

Many analysts still expect the next interest rate movement in the UK to be downwards, but rates will rise again as one cycle comes to an end and the next begins. There is always a chance that fixed rates may decline further, but they may not have scope to fall very far.

Unless you intend to pay down your mortgage over the coming years (capital repayment incurs early redemption penalties), it is a good time to fix your mortgage.

Gloucester's 6.99 per cent, five-year fixed rate will be replaced by a 5.85 per cent, two-year mortgage with two of 6.19 and 6.59 per cent (the cheaper one is for those borrowing only

Peers this week of interest rate rises in the longer term pushed up rates on the money markets where the building societies borrow funds for fixed-rate mortgages. By Thursday night a number of lenders - including the Halifax, Leeds, and Cheltenham & Gloucester - had axed their fixed-rate mort-

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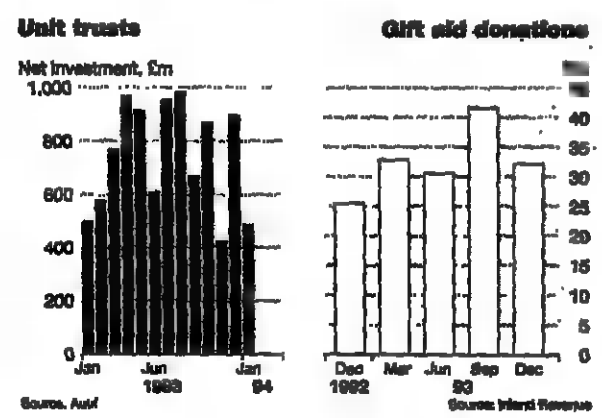
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## HIGHLIGHTS OF THE WEEK

	Price	Change	High	Low	Volume	Notes
FT-SE 100 Index	3281.2	-101.4	4520.3	3271.1	1,123,456	Record low since 1992
FT-SE Mid Cap Index	3019.9	-106.6	6152.8	3013.5	234,567	Record low since 1992
FT-SE Small Cap Index	4274.6	-211.4	4894.6	4263.2	156,789	Record low since 1992
Barclays	841	-36	882	835	12,345	Weakness ahead of earnings
Bovater	507	+31	524	494	8,901	UBS recommendation
British Gas	505	-21	584	494	15,678	Profit warning
British Thomson	130	-33	185	115	3,456	Profit warning
Carr's Milling	208	+23	232	201	1,234	UBS recommendation
Gold Greenlease	239	-21	265	205	5,678	Y&R cancelled
Grand Union	471	+13	506	373	10,123	UBS "buy"
Hunters	230	+22	230	101	1,012	Positive statement
Macro	695	-50	723	523	2,345	Difficult trading conditions
NatWest	497	-42	634	398	18,901	Weakness ahead of earnings
Shell	702	-27	749	615	12,345	Dividend increase
Unilever	1130	-76	1249	1011	15,678	Profit warning

## AT A GLANCE



## Weak month for inflows into unit trusts

January was a relatively weak month for inflows into unit trusts although they still retained their popularity with private investors. Net investment of £490m was down from the £595m invested in December, the unit trust industry body, which is the fall to heavy selling by institutions in the Far East for profit-taking after last year's strong performance in the region. Private investors accounted for a net £334m investment last month. The most popular retail funds were international growth and UK equity income funds.

## Gift aid donations rise

Gift aid donations by individuals rose in December 1993 to £31.9m compared with £25.5m the preceding December. The total amount raised in the three years to December 1993 is £568.6m, of which £354.4m was provided by individuals. Gift Aid is designed for one-off donations to charity, which are treated as net of basic rate income tax. This means a gift of £250 becomes £333 in the hands of the charity. The reduction of the minimum qualifying gift to £250, since last year, has encouraged greater use of the scheme.

## Sun Life pegs some bonus rates

Sun Life has held some of its with-profits reversionary bonus rates at 1993 levels, while cutting others, but terminal bonuses will generally be equal to or greater than 1993 rates. The maturity value of a 25-year with-profits endowment policy, taken out by a man aged 29 paying £30 a month, will be £47,894 on April 1, a slight rise from £47,575 last year. However, this is still at the lower end of the scale compared to Sun Life's competitors, many of whom are paying more than £50,000 on similar policies. A 10-year unisex with-profits policy would pay £6,488.

## Barclays' gold card perk

Barclays is introducing free annual travel insurance on its Premier Gold Card, a charge card carrying an annual fee of £80. The insurance, available from March 1, is for the cardholder, dependant children under 18 for unlimited worldwide trips. The main benefits are £1m medical expenses, £1m personal liability, £200,000 personal accident, £3,000 baggage.

## Cuts in card interest rates

Save & Prosper/Robert Fleming has cut the interest rate on its Visa and Mastercard credit cards to 0.95 per cent a month (APR 13.9 per cent, or 15.4 per cent for cash) from 1 per cent. It is the lowest rate of interest available on a UK credit card. The cards carry an annual fee of £12.

## Smaller companies decline

Smaller company shares continued to slide for a third week. The Hoare Govett Smaller Companies Index (capital gains version) fell 1.9 per cent to 1843.5 over the week to February 24.

## New York

# Share crash on information superhighway

This is beginning to look a little worrying. First, the bond markets post heavy losses and then, about the end of the week, one of the largest corporate issues in US history - the union pension fund group Bell Atlantic and cable giant Time Warner - collapsed simultaneously, leading to the stuffing out of the market and creating a large pothole in the much-vaunted information superhighway.

This nasty one-two punch left equity investors reeling, and the Dow Jones Industrial Average nursing a 52-point loss by Thursday's close. Since the Federal Reserve pushed up the bank overnight lending rate from 3 per cent to 3.25 per cent on February 4, the Dow has taken three steps back for every two steps forward. The net result is that the average has fallen 130 points, or 3.3 per cent, in three weeks of erratic trading.

There are analysts on Wall Street who are unperturbed by these events, and who scoff at reports that the failure of the Dow to break through the 3,000 level marks the end of the 1990s bull market. Their sanguine view of the recent selling is that it is part of a natural correction, a correction that was inevitable in the wake of the Fed's decision to tighten monetary policy.

While this argument is compelling (share prices were looking overbought at the time of the Fed's move, so a rate increase provided an obvious opportunity for the market to let off some steam), the recent surge in long-term interest rates remains disturbing, not least because this was not how it was meant to happen - at least according to the Fed's plan.

Remember, the logic behind the February 4 rate increase was that by pushing up short-term rates early, the Fed would assure financial markets of its commitment to a gradualist policy, and create a climate in which long-term interest rates could stay low, comfortable in the knowledge that the central bank was ever-vigilant against the threat of an overheated economy and rising prices.

Two things are clear after the first round of results from Britain's biggest composite companies.

One: the sector is emphatically in profit. Its weather has been related problems of several years: Guardian Royal Exchange started the ball rolling on Tuesday with 110p (compared to 100p in the previous year) and Royal Exchange followed with 121p (against 127p) and Royal Exchange with a profit of 121p - in fact the best after nearly three years.

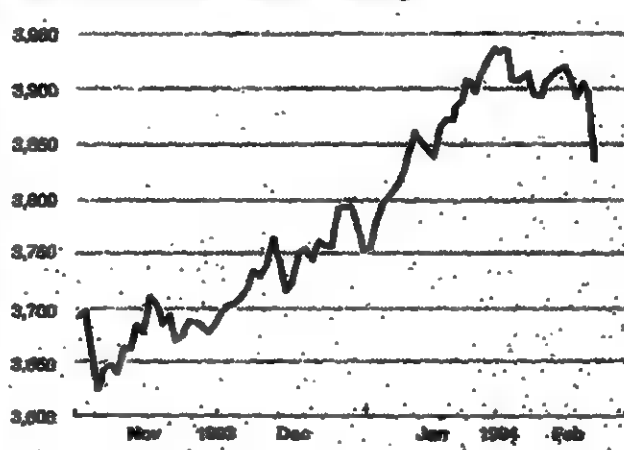
Two: the trading outlook for the medium term is marred by the prospect of a re-emergence of price competition, already visible in what has historically been the UK's most competitive sector - insurance. The new "direct writers", telephone-based motor insurers like Direct Line, and a number of interest in the UK by European companies, as markets in France and Germany recover, will undermine pricing.

## Clearer picture from big five

From week Guardian Royal Exchange will increase competition in the motor sector by launching its own direct writing company, Guardian Direct, bringing the total of "direct writers" to about a dozen. Already direct writers beginning to nibble the insurance market.

John Chester, analyst at Warburg, noted: "From a composite perspective, the normal cyclical fluctuations being overlaid by the secular trend towards direct writing and consolidation in Europe. While many lessons have been learnt from the heavy losses of recent years, the battle ahead may be no less bloody. It would be particularly inconvenient if the sector were to be affected by investor perceptions of the sector. Insurers have

## Dow Jones Industrial Average



Source: FT Graphics

Yet, since the Fed put up short-term interest rates, long-term interest rates, as measured by the yield on the benchmark 30-year bond, have risen from 6.30 per cent to 6.75 per cent. The yield on the 30-year bond has not been as high since June last year.

This rapid rise in bond yields concerns stock market investors primarily because higher interest rates could

undermine the attractiveness of the stock market, and slow the pace of corporate capital-raising. Also, if interest rates keep rising, investors might eventually be lured away from stocks and into higher-yielding fixed-income securities.

If this were not enough to worry about, the demise of the Bell Atlantic-TWC deal has further dented the stock market's confidence. The collapse of the

deal, calculated to be worth somewhere between \$20bn and \$30bn, is worrying on several counts. From a strategic point of view, the deal was the largest and most powerful player in the telecommunications industry.

It reduces the number of other cable, telecom and technology companies to forge similar alliances. Those companies considering joining forces to compete with the Bell-TWC giant may now be content to enter the new age of interactive information technology, communications and entertainment on their own.

From a financial point of view, the fact that the main reason the merger failed was because Bell and TWC could not agree on terms - Bell kept wanting to pay less for TWC (mostly because regulators have ordered cable companies to lower their cable television rates was likely to damage TWC's future cash-flow) and TWC was increasingly troubled by the drop in Bell's share price - means other companies seeking to conclude takeovers or mergers in the industry will

be more reluctant to pay the top dollar. Moreover, unless the sharp drop in the price of cable and telecommunications stocks is reversed, it will be harder to pay for deals with equity. One of the great features of today's mergers and acquisitions boom is that so many companies have been funding their acquisitions with stock. Last year, more than a third of all transactions in the US involved companies swapping stock for stock.

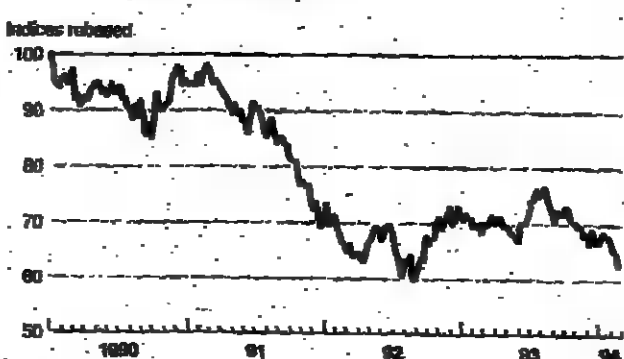
Yet, if the value of stock starts declining (not just in the cable and telecommunications sectors, but in the market as a whole, if the current "correction" continues), then companies will be less willing to use equity to pay for mergers or acquisitions. And, they are not going to be keen to start funding deals with borrowed money if interest rates keep rising, either.

Patrick Harverson

## The Bottom Line

# Clearer picture from big five

## Uncertain picture for insurers



Source: FT Graphics

underperformed the FT-SE All-Share by about 30 per cent since last summer and by 7.1 per cent since the beginning of the year. GRE's warnings of price competition on Tuesday were enough to send the prices of all the composite firms south, with the sector this

week underperforming by 3 per cent. Profits are still expected to be strong, but the sector is under pressure from the effect of price increases introduced between 1991 and 1993 and through losses from recession-related claims, such as those from

domestic mortgage indemnity insurance, Aviva.

On balance, therefore, a few of the stocks look attractive - although no one differs in their assessment.

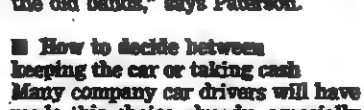
Cheltenham view that Commercial Union should be the core holding in the sector has many adherents



**With a new tax system for business drivers imminent, Scheherazade Daneshkhu examines the impact**

The price is capped at £80,000, so that cars with a list price above this

Then, compare your car's list price to the break-even list price shown in



There are some oddities caused by the way the old scale charges were.

"Perks" drivers who do not clock 2,500 business miles will pay proportionately the largest amount of tax, since they will not benefit from the

Model	List price	Old scale change	New scale	Diff.	Change to base
Rolls-Royce Phantom II Spur II	118,000	10,040	10,867	8,227	3,425
Porsche 911 3.6 Turbo	93,480	10,040	10,957	8,827	3,345
DeSoto-Dezot El. 500	24,000	1,000	1,320	320	13
Jaguar XJ	24,000	1,000	1,347	347	58
BMW 730i V8	58,550	10,040	8,985	-1,045	11
Range Rover Vogue SE	36,130	10,040	8,430	-1,810	11
Mercedes XJS	50,000	10,040	7,883	-2,177	12
BMW 525i SE	33,000	1,000	822	322	13
BMW520i SE	33,000	1,000	7,183	-178	13
Shelb 9000 Corsi 2.0i	101,000	9,210	4,734	-1,488	13
Mercedes 260E	18,150	2,900	4,488	1,478	58
Mercedes 260E SE 2.5	17,785	4,800	4,152	-468	25
Volvo 900 GLE	16,000	1,000	867	867	15
Vauxhall Cavalier Price 2.0i	14,000	1,000	733	233	20
Vauxhall Cavalier 2.0i SE	14,325	2,980	833	353	14
Ford Mondeo 1.6 GLX	12,300	2,880	4,403	113	4
Rover 214 SD	11,985	2,310	2,787	487	1
Rover 214 GL 1.6i	11,850	2,880	2,711	-279	-11
Rover 214 GL 1.6i	9,775	2,310	2,501	-29	-1
Mini	6,785	2,310	1,596	-725	-29

Source: WUP, Cambridge. Figures assume inflation fallings of between 2.5% and 12.5% and a 40 per cent drop in petrol prices.

Another option is to switch to a company car with a cheaper list price or to retain the company car if it is four years old. "If the list price

■ See Motoring - page XV

liability for the tax for another year. Whether insurance companies agree remains to be seen.

■ See Motoring — page XV

value of the project. Obtain and send the New Jersey  
such an offering may lawfully be made. Equi-

do not constitute an endorsement of the merits or

This project is supported with the New Jersey Bond House Commission, NJREC 9034-711 to 716. Registrants do not constitute an endorsement of the merits or value of the project. Obtain and read the New Jersey Public Officing statement before signing anything. This is not an offering in any state where such an offering may not lawfully be made. Bond House Commission.

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## FINANCE AND THE FAMILY

## A man for all reasons

Bethan Hutton and Barbara Ellis on the insurance ombudsman's annual report



Julian Farrand, the insurance ombudsman, does not have an easy job. On his desk - and those of his many assistants - land the cases of the most tenacious complainants and the most intransigent insurance companies. More and more arrive every year.

The task for Farrand and his staff is to look at the cases objectively and try to work out a common-sense solution which is fair to everyone involved. On average, one-third of cases result in at least partial success for the complainant.

This impartial approach means he is plagued by both sides. In his annual report, published this week, Farrand makes a heartfelt plea for people not to be abusive over the telephone or write every week repeating the same arguments. But he also asks insurance companies not to react negatively when facing an investigation.

Of the 63,000 calls and letters received by the bureau last year, almost 90 per cent concerned matters outside the usual cases involving companies that belong to the scheme - and then only when the customer has exhausted a company's own complaints procedure.

Farrand's jurisdiction covers the whole range of insurance, from a one-week travel policy to long-term life cover. The highest award made last year was £230,000 and the smallest £3.88. Occasionally, claimants are seeking merely a moral victory or, perhaps, an apology.

Some cases handled by the bureau are disturbing. One involved a joint life insurance policy, taken out by a married couple, in which the husband murdered his wife in front of their three children before killing himself. A compromise was reached, under which half the policy's value was paid to the

policyholder's claim that the devastation caused by two young puppies with very sharp teeth left alone at home came under the definition of "animals colliding with the house."

His case was rejected. The bulk of the bureau's time, however, is taken up with much more mundane matters of home income plans, administrative incompetence, policy churning, subsidence claims and so on.

Once a case has been given to a worker, the average resolution time is 3½ months. But patience is necessary: the long-

**'One case involved a husband who murdered his wife...'**

gest-running case - a complicated matter of subsidence - has taken about seven years.

Life insurance continues to draw more complaints than any other single category. But 89 per cent of these are resolved in the customer's favour compared with 28 per cent for general insurance.

The most common complaints about life insurance are poor communication, administrative failure, service, and mis-selling.

The level of fraud and excessive claims is worrying the insurance industry. Fraud is estimated to cost policyholders £1m a day, while there is widespread acceptance of the attitude: "It doesn't matter, I'm insured. But measures taken to clamp down on this can penalise honest, responsible claimants."

Insurers are tending to apply more strictly the "care" provisions of many policies. Complaints frequently involve travel insurance, and belongings left on beaches:

To the ombudsman, £24,000-

worth of jewellery had been left unattended in a bag for 10 minutes, the ombudsman decided reasonable care had not been taken.

But in another, where the policyholder had taken his bag to the beach because his room was not ready, and was robbed after falling asleep, the complaint was upheld.

Sometimes, it can be difficult to determine the issue of good faith. The report tells of a man who took out several personal accident insurance policies to the value of £500,000 - then chopped off a finger and part of his thumb with a meat cleaver while making a chicken curry.

One of his claims was rejected, for essentially technical reasons, but the others were met. The issue of intent was not raised, however, and Farrand wonders if the man was "extremely clever, or merely careless, with his cleaver."

Issues arising from a particular case sometimes lead the ombudsman to make general recommendations.

This year, Farrand urges life companies who know they are going to cut bonus rates to warn customers asking for a quote before the cuts are announced or implemented.

In the past, however, companies' response to general recommendations often has been to tighten the wording of their policies, usually to the detriment of the customer. This is what happened with claims for matching items, such as furniture covers, when part of a set has been damaged.

The ombudsman's general view was that half the non-damaged items should be paid for. But many insurers responded by excluding matching items altogether.

B.H.

Compensation claims from home income plan investors have been pitched into further doubt in what has become a three-year tussle between the insurance and building societies ombudsmen and the institutions under their jurisdiction.

Home income plans are packaged investments consisting of a mortgage taken out to buy an insurance company investment bond. Thousands were sold during the late 1980s on the basis that income from the bond would pay the mortgage interest and provide an income. But many salesmen failed to warn about the risks of spiralling debt and repossession if house prices and investment returns fell, and interest rates rose.

Julian Farrand, the insurance ombudsman, says home income plans are the most significant part of his work load, totalling about 1,000 cases now with one or two new complaints arriving daily. So far, he has closed about 80 cases, with payouts to investors averaging £55,000, and distress payments averaging £1,500. But Farrand now faces a challenge from Sun Life.

Last year, a QC acting as arbitrator in a case involving Legal and General ruled that the insurance ombudsman could not deal with a complaint about the mortgage element of an endowment mortgage package. Farrand felt this put home income plans outside his jurisdiction but John Craddock, a retired L&G executive who chairs the ombudsman scheme board, said he should continue handling them.

Farrand now is considering a handful of involving Sun Life although the company says it does not think they fall into the category of home income plans. Geoffrey Holt, compliance executive at the company, says two of the investors took out roll-up mortgages from building societies, then approached a Sun Life salesman to invest part of the money raised in a bond.

"We will look at the advice on the bond, but it is up to the societies to deal with the mortgage," says Holt.

Ombudsmen covering the building societies have no jurisdiction over "pre-completion" matters such as advice given before a person takes up a mortgage as part of a home income plan. They are handling some home income plan complaints, but only with the voluntary consent of the societies concerned. Some have refused flatly to co-operate.

Although a Building Societies' Association report has recommended the ombudsman's jurisdiction be extended to pre-completion complaints, it was careful to exempt complaints about the selling of investments, saying these would be "more appropriate" to the new PIA ombudsman (see page V) due to start work in July. But this could entail disastrous delay for investors, as most were elderly when they bought the plans.

Moreover, if the PIA also takes over Farrand's long-term insurance case load, home income cases presumably will be included, resulting in a probable halving of the maximum £100,000 compensation available from the insurance ombudsman now.

B.E.

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again

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journey wonderful. cm.

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business to British  
Airways. *[Signature]*

Super service BA!

D.C.

From weary traveller to  
human being - thanks BA.

Thanks when  
I fly BA. @

B.A. does it again.  
T.A.S.

Supers? At last the  
service continues after  
you land.

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should we need hotels?

Thanks. MR

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## FINANCE AND THE FAMILY

Insurance for Life / Debbie Harrison

## Where freedom is everything

**F**unds under management at Scottish Widows exceed £21bn, which makes the third-largest mutual in terms of assets. The power it exerts in the life and pensions industry has led to the label "Scottish mafia," which it shares with two other mutuals north of the border, Standard Life and Scottish Amicable.

In terms of financial strength - a key feature in long-term investment provider - the society was awarded Standard & Poor's top assessment because of its strong free asset position and initiatives taken to improve efficiency and quality of service. As a proportion of total assets, the level of free assets indicates how much capital is available for development as opposed to assets set aside to meet liabilities to policyholders. The free asset ratio is an important indicator for mutuals since, unlike proprietary life offices, they cannot go to the stock market to raise capital.

Scottish Widows has free assets worth more than £2bn, which is 20 per cent greater than the average of the top 10 mutuals. Managing director Mike Ross says: "A strong financial position enables us to maximise the investment freedom which we can give to our investment managers. Greater investment freedom means greater policyholder returns over the longer term."

Nevertheless, the society's performance has dipped in recent years. Poor performance has hit its most popular funds - conventional with-profits, managed unit-linked, and equity unit-linked.

The with-profits story reflects the problems that have beset the entire sector. With-profits funds aim to achieve a good but steady return through investment in gilt, fixed interest, property and equities. Part of the return is guaranteed; hence the attraction for investors seeking a degree of security.

For some time, the society has ploughed a substantial proportion of its with-profits fund into equities and property. But poor historic returns on prop-

## FACT FILE 4

Name: Scottish Widows Fund and Life Assurance Society  
Status: Mutual  
Founded: 1815  
Market position: Third largest mutual in terms of assets  
Financial strength: Standard & Poor's assessment is "good"  
Funds under management: £21.8bn (at 5/1/94)  
Premium income: £1.78bn in 1992 (life and pensions)

Number of personal pension plan clients: 450,000  
Number of transfer plans sold: 35,000  
Sales outlay: 95 per cent through independent advisers, 5 per cent through direct sales and tied agents. Plans to increase direct sales to 20 per cent of distribution  
Commission: paid: Average life office rates to independent advisers, as before 1992, 47 per cent and 90 per cent of the first year's premium for a 20-year contract. Nil commission on terms available? Yes, through any adviser or tied agent. Where commission foregone, a greater proportion of premium actually invested in plan

Recurring charge: 1.5 per cent. Expense ratio (management expenses divided by total premium income): 20.15 per cent in 1991, 18.12 per cent in 1992. Industry average last calculated in 1991 at 18.9 per cent  
Reduction in yield: 1993: equivalent annual percent change over the life of the contract: 1.5 per cent on 25-year, unit-linked personal pension (industry average 1.8 per cent). Below average on most contracts and terms

Penalties on early retirement or termination: Cazenove unit-linked plans - no penalties; with-profits plans, a discretionary market value adjustment (MVA) penalty may be applied. Cazenove unit-linked plans: 10 per cent penalty on early retirement; 15 per cent on early termination. Cazenove unit-linked plans: 10 per cent penalty on early retirement; 15 per cent on early termination. Cazenove unit-linked plans: 10 per cent penalty on early retirement; 15 per cent on early termination.

heavy weighting towards FT-SE 100 stocks at a time when smaller companies have shown better performance.



The glamorous widow in black: has long personified the Scottish Widows name

Charges: Life office illustrations of what your investment may produce use a standard basis for charges set by Lawrie (the Life Assurance and Unit Trust Regulatory Organisation). To reveal the impact of real charges on the fund of Scottish Widows managed unit-linked plan, we asked for illustrations using actual charges for a man age 35 who expects to retire at age 65 (ie, a 20-year contract), paying £1,200 per month and £1,200 per month single premium of £10,000. Illustrations using Lawrie standard charges, which is fact as lower than those used by most life offices, are shown in brackets. The last illustration gives a theoretical value if no charges were deducted.

Full contribution paid	9% gth	10% gth
Monthly premium	£76,012	£74,701
Single premium	£10,000	£10,000
Monthly premium	£76,012	£74,701
Single premium	£10,000	£10,000

Nil commission	9% gth	10% gth
Monthly premium	£76,012	£74,701
Single premium	£10,000	£10,000
Monthly premium	£76,012	£74,701
Single premium	£10,000	£10,000

Theoretical no charges	9% gth	10% gth
Monthly premium	£76,012	£74,701
Single premium	£10,000	£10,000
Monthly premium	£76,012	£74,701
Single premium	£10,000	£10,000

As can be seen, the actual charges on the plan are significantly higher than the standard charges. The actual charges are also higher than the standard charges. The actual charges are also higher than the standard charges.

heavy weighting towards FT-SE 100 stocks at a time when smaller companies have shown better performance.

The society's with-profits fund returned below-average results over five, 10 and 15 years, although it remains one of the top performers in its category over 20 years.

The society's more unit-linked with-profits plan has performed above average since 1992. The managed unit-linked fund, which offers a mixed portfolio of investments, has been below average over the past five years after peaking in 1989, when it was among the top performers in its category. In 1992 and 1993, it fell into the bottom 25 per cent.

Market analysts say the society has taken steps to rectify its investment problems, but it is too early to see the results.

Charges are an important feature of any investment plan, and Scottish Widows' personal pensions offer below-average charges on all lengths of contract, according to Lawrie figures - that is, the equivalent annual charge over the full period the policy is in force (source: FT Unit Trust Regulatory Organisation's book and Pension Management).

Where commission is paid to advisers, the society deducts an extra 30 per cent from premiums paid during the initial period. This can be anything up to 27 months, depending on the length of the contract.

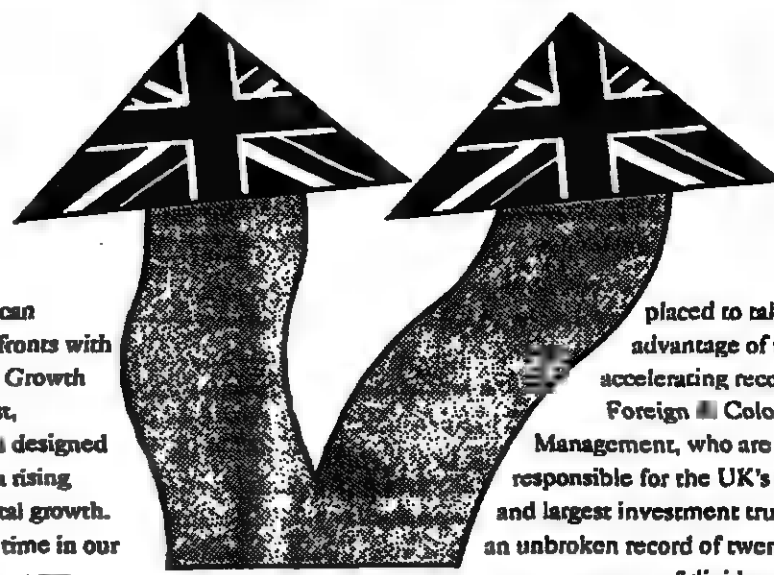
The importance of independent advice is increasingly being recognised. It is perhaps surprising that Scottish Widows is increasing its direct sales operation from 5 to 20 per cent by 1998. Independent advisers are responsible for 95 per cent of business now while tied agents, who sell the products of a single provider, account for only 5 per cent.

The society monitors its tied agents carefully following a fine by the Life Assurance and Unit Trust Regulatory Organisation (Lawrie) of £100,000 for "incorrect advice."

Sales of personal pension transfer plans to employees with company scheme benefits also are monitored carefully. The society has sold 35,000 transfer plans, more than 50 per cent of which were cases where the company pension scheme was being terminated.

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The investment manager believes that the economic outlook for Central Europe is favourable and that now is the right time to invest.

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To: The Central European Growth Fund PLC, Mitre House, Canbury Park Road, Kingston-upon-Thames, Surrey KT2 6LZ. Please register me for a Mini-Prospectus.

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THE CENTRAL EUROPEAN GROWTH FUND PLC

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24 February 1994

## NOTES ON HOW TO COMPLETE THE APPLICATION FORM

ALL APPLICANTS SHOULD READ NOTES 1-5

1. Fill in the form showing the details of the applicant and the details of the application.

2. The application must be completed by the applicant and signed by the applicant.

3. The application must be completed by the applicant and signed by the applicant.

4. The application must be completed by the applicant and signed by the applicant.

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1. 1.994	US\$1.00	1,000,000
2. 2.1994	US\$1.00	1,000,000
3. 3.1994	US\$1.00	1,000,000

3. Fill in the block regarding the details of the applicant.

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Act now. You have until the closing date which is expected to be 10.00 am on Wednesday 23rd March to apply for 'C Shares' in EFM Small Companies Trust plc. To receive a copy of the mini-prospectus and application form contact your financial adviser, or call:

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## FINANCE AND THE FAMILY

# If you like it, then go for it

That's the message an investment trusts from one analyst, says Bethan Hutton

Investment trusts seem to have entered a topsy-turvy world where discounts have become premiums and it is cheaper to invest through a new or a C-share issue than to buy shares in an existing trust. So says analyst Misha Angus in FTW Small Securities' annual review of the investment trust sector.

The past year has been a boom time for investment trusts. Their performance has outstripped unit trusts; more and more private investors have been taking their first plunge into the sector; and discounts have disappeared rapidly. But Angus, although generally bullish, makes a few points of caution.

"The performance edge which investment trusts enjoyed over unit trusts has not come from widely differing and better total return performances," he says. "It has come mostly from the narrowing of the discount and that is something which cannot

be repeated." And while he does not think investment trusts are about to disappear for good, he does not believe they will return to the 20 or 30 per cent level of a decade or so ago.

"I am not saying that trusts are bad value," Angus says. "But the conventional structure trusts, it is all down to the gearing and the low management costs, and to the performance of the underlying assets." The message is blunt: Pick your trust - and its manager - carefully.

"Don't pile into the sector indiscriminately," Angus cautions. "Investments are too low for that and there are risks involved if the market makes a quick, sudden tumble." But he adds, too, that his old prejudice against new issues and C-shares has disappeared. "If it is big, liquid and you like it, go for it."

Angus says the future development of the investment trust industry should focus on "life-style needs" where

savings products are provided by pension funds, private medicine. This is already starting to happen - Foreign & Colonial recently launched an investment trust pension - but there are still huge, unexploited opportunities.

Meanwhile, the new issues keep on flowing. Two of the latest may be of interest to investors who are looking to extend their portfolio into formerly uncharted - and still risky - territory. The public offer is now open for the Israel fund, a dollar-denominated, UK-based investment trust managed by Hershenson de Haas Walsh. It opened on March 3. The fund will invest in stocks listed on the Tel Aviv exchange, or small companies listed elsewhere.

This is the first single-country fund for Israel available readily to UK private investors except for a very small Luxembourg-registered unit trust from Svedia, marketed through Skandia Life.

Minimum subscription to the Israel fund is £1,000. Ordinary shares are offered at \$1, with one warrant exercisable May 1995 to 2004 attached to every five shares.

Another fund which fills a previously empty niche for UK investors is the First Central European Growth fund. It plans to invest mainly in the Czech Republic, Poland and Hungary to take advantage of what the company expects to be the fastest growing economies in Europe over the next five to 10 years.

The public offer opened yesterday and closes on March 11. Ordinary shares are on offer at \$1, with one warrant (exercisable between April 1995 and 1999) attached to every five shares. Minimum subscription is £1,000. Base expenses mean the \$1 share will have an initial net asset value of 95 pence. Annual management fee will be 1.25 per cent.

## Gift to a daughter

I am a retired writer and in January 1993 was left a property valued at £25,000 as a gift. When I die, I know my estate will be liable for death duties of perhaps £40,000.

I have two daughters and I am considering transferring the property to one of them. I am conveying the property in this case and if I can I attempt it myself.

If my daughter takes the property in her own private residence and not, accordingly, as a gift, the gift-duty exemption will apply.

If you transfer the property in the future, you will need to pay death duties on your daughter's death to avoid these rules applying. The gift of the property would be a potentially exempt transfer. If she dies within seven years of making the gift.

If you transfer the property to your daughters now, you would realise a capital gain charge. The gain which you would realise would be the excess of the market value at the time of the gift over the probate value, reduced by any losses (for example, if the property is sold at a loss).

In the present property climate, the market value at the time of the gift might not be greatly different from the probate value. Hence, your gain could be small and covered by

annual exemption of £5,000. Alternatively, you might realise a loss. I suggest you get the property valued to see if CGT would be payable.

Conveyancing is necessary in the case of a gift. This can be done by you but it is normally better to ask a professional adviser to help. No stamp duty is payable in the case of a gift of land.

(Reply by Barry Stillerman of accountant Stoy Hayward.)

## Tax levy on trust

My husband died five months ago and left his estate in trust. The trustees are myself and another person who is a named beneficiary. On my death, the trust fund is to be distributed to our four children.

1. What is the tax position of such a fund? 2. Can the trust continue to benefit from the tax advantages of a Tessa account, Pep etc. 3. Are there any constraints in the management of such a trust?

If I am assuming you are provided with a life interest so that all the income from the trust fund during your lifetime will accrue to you; and that, on your death, the fund is distrib-

## Q&A

### BRIEF CASE

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All queries will be answered by post as soon as possible.

used equally to your children, writes Barry Stillerman. If this is correct, then there will be no inheritance tax to pay on your husband's death. There would, however, be IHT on the entire trust fund on your death.

If your husband has not utilised the nil rate band, you might wish to consider a transfer of variation so that up to £100,000 of assets are passed to your children now.

As only individuals can be named in a Tessa or Pep, these investments are not available to trusts.

Unless there are specific constraints in the trust deed, the only constraints would be those provided by parliament in the various acts regulating the behaviour of trustees.

## Death duty and Peps

When I die, what will happen with my Peps? Will my beneficiaries - most likely my wife - have to pay the tax on them? All future capital gains and dividends from my Peps will be subject to the same rules as my death. 2. All capital gains and dividends from my Peps will be subject to the same rules as my death. 3. All capital gains and dividends from my Peps will be subject to the same rules as my death.

Upon your death, the personal equity plan, which is a vehicle for investments, is subject to inheritance tax. It is subject to inheritance tax. It is subject to inheritance tax.

As regards capital gains, your beneficiaries will take over the assets at probate value and will be subject to CGT on any increase in value from your death. The Peps holding will not attract CGT by reason of your death.

The income from the assets in the plan will attract income tax from the date of your death. For example, if you were to die on September 30, you would be subject to income tax on any income up to the period.

The executors pay tax on income during the administration period and, once the assets in your estate (including the Peps assets) have been distributed to the beneficiaries, they pay income tax on any future income received.

## Dividends on scrip

I have been cash for the scrip dividends but am not

sure how to deal with the free pamphlet CGT13 (the indexation allowance for quoted shares). You should also write to the Inland Revenue Public Enquiry Room, Tower House, Strand, London.

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Coverity BS	2 High Street Classic	0203 882571	Instant Interest	£1,000	6.00%	7.10%
Coverity BS	Classic	0203 882571	Instant Interest	£1,000	6.00%	7.10%

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MONTHLY INTEREST						
Monthly BS	Extra Interest	(£) 252277	Instant	£1,000	6.00%	M
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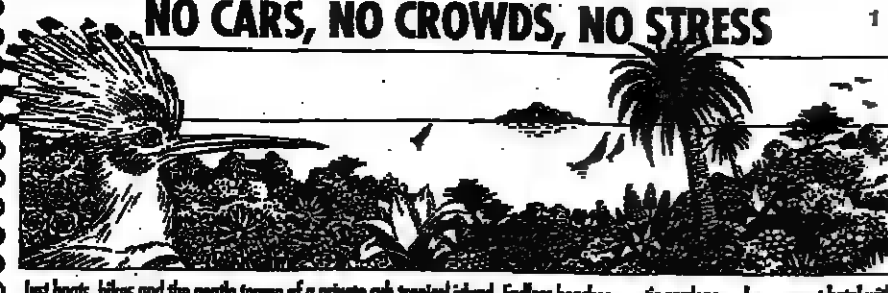
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## TRAVEL

## Antarctica – beyond the comfort zone

Michael J. Woods watches seals, terns and whales in inhospitable waters

With hardly a sound, the sea lapped on the shore of granite, ground to a silky smoothness by ice and water – itself blanketed by a layer of snow.

Portly crab-eater seals lay enveloped in the fluff of this fluffed and plumped duvet as sprawled on bluish ice floes carved and drawn like glass into delicate graceful shapes by the sun. Distant cliffs of rock and ice loomed through a haze of blowing snow.

Antarctic terns cried and hurried over a shoal of fish, diving and then swooping upwards on confident wings. Then from a distance came the sudden roar of a collapsing ice cliff which, with tremendous force, sent a wave of water sweeping into the bay, a timely reminder that Antarctica is far from placid and even in the austral summer can be fierce and inhospitable.

I had come here to fulfil a childhood dream born out of Scott, Shackleton and Vivian Fuchs and given a final push by David Attenborough's *Life in the Ice* series.

From Punta Arenas in southern Chile, our cruise ship, *World Explorer*, had navigated the Beagle Channel, rounded the Horn and then braved the Drake Passage, a two-day gauntlet run by every visitor to the Antarctic Peninsula. The gods had been kind, and we were in the shelter of the South Shetland Islands with half a day in hand.

This gave us time to slip into the Weddell Sea, gliding delicately between icebergs which had calved from the ice shelf and were drifting slowly away from the continent. These flat-topped monoliths, like blocks of ice badly cut in concrete, towered high above the seven decks of the ship. That a few months ago they were almost beyond comprehension.

Although there were some on board who had no intention of going ashore, all others who simply wanted to get off their final continent, many of the passengers told me that they really weren't "cruise people." They were there for the only way that Antarctica is readily accessible to ordinary visitors – by ship.

There will only provide a

able accommodation with minimal impact on the environment, but visits to the shore by inflatable Zodiac can be more easily arranged.

I happened to be on *World Explorer* when it was undergoing its biennial check by the British Antarctic Foundation who had come along to ensure that the cruise was being run in a safe way, that the passengers were receiving both education and supervision with regard to the wildlife they were seeing, and that the operation was observing the guidelines set down by the International Association of Antarctic Tour Operators (IAATO).

This was sound, dreadfully regulated and restrictive, but such regulations are clearly necessary as the numbers of visitors, in what is only a tiny proportion of the continent, grows.

Such visits are at their most exciting only when large numbers of passengers are ashore. As a result, the expedition leader's advice is to take an early Zodiac ashore and watch the last one head for home.

On one of my trips ashore I watched a mass of chinstrap penguins in an odoriferous rookery high on a grassy hillside. There were birds feeding chicks, stealing pebbles from their neighbours' nests, preening, displaying or making their ponderous and squelchy way over dirty snow to and from the sea.

On the shore below, a steaming heap of elephant seals wobbled irritably as one animal tried to burrow further into the pile. Occasionally things proved too much and a pair reared up, snorting and lunging, until humans were warned and the two brown blanchings settled down once more.

As we climbed aboard the *Zodiac* to leave our final landfall at Port Lockroy, one of the guides whipped the blow of a humpback whale a short distance away, and we set off over the choppy water for a short time.

The three great mammals were in a hurry to leave along on the surface, breathing noisily between arching lines of water with grace and sliding into the depths, lifting their tails out of the water – a flicking – before disappearing with hardly a ripple. The *Zodiac*, which had a few seals on board, was followed by cetacean calls.



The frozen splendour of Antarctica from the decks of the *World Explorer*

erupted with elated cries.

We followed the circular upwellings of water created by thrusts of their flukes, and were there when they resurfaced after just 30 minutes. Again they lazied on the surface, again they fluked. But time was passing and we had to return to the *World Explorer*.

Back on board, the mother ship began to shadow the whales. The sun was falling in a clear, pale blue sky and our position between the Antarctic Peninsula and the large islands felt as if we were sailing on a vast lake surrounded by the soaring spires of mountains,

unnamed and unexplored, with dark, snow-dusted peaks piercing the blue sky.

These, the product of decades of snow, were the mountainsides and crumpled over folds in the underlying rock where calving chunks into the dark blue Antarctic Ocean.

The great cetaceans had the muscle to outpace us had they wished, yet they remained on their backs, surely winking and diving to delighted cheers from the bows.

It would be hard to think of a natural spectacle more magnificent than watching these massive mam-

moths in a primeval landscape of such grandeur, so human dimension as to be at once both humbling and awe-inspiring. Most of those on the ship – some were extremely well-travelled – were unlikely to experience a scene of such awe and splendour any more.

Michael Woods travelled in Antarctica on *World Explorer* Voyages: Suite 301, Albany House, 324-326 Regent Street, London W1B 5AA. Bookings: 020-7730-1111. The company runs adventure cruises during the austral summer (18 nights or more).

All-inclusive prices, including airfares, transfers, hotels where necessary, full board on the ship and insurance, start from £4,600 (1994-1995 season) for the 16-night cruise that Woods *World Explorer* departs: Dec 4 1994 and Jan 2 1995. *World Explorer* will be carrying a further six voyages in the Antarctic, taking in, additionally, the Falklands and South Georgia. *World Explorer* handles a maximum of 138 passengers.

Clothing: *World Explorer* provides a padded parka but other items are essential. Thermal underwear as a base layer, and good quality fleece

over those made by Mountain Equipment (tel: 01843-5151) as an intermediate layer, should be covered with a windproof outer shell. The parka is fine but Woods found a Goretex outer over a down jacket more flexible. Waterproof boots and wet-socks are essential in the Antarctic and for wet landings.

Packing: There is plenty of film as well as spare batteries, which are exhausted more quickly in the cold. A *World Explorer* is useful at the penguin rookeries and for the *World Explorer* Carry polythene bags to protect your gear.

## Heady brew of beer and capitalism

Michael Thompson-Noel finds that even a teetotaler can have fun in the old breweries of Bohemia

Even a teetotaler can enjoy a knee-up in a brewery in Bohemia. I have been here since 1983, when I became a learner-driver, but I still like to visit other people drinking. Especially to excess. Annihilating brain cells with flaccid laughter.

This party was under way in the hospitality room of the recently opened Regent brewery in Trebon, in the Czech Republic, where beer has been brewed since the 13th century. The brewery was founded in 1379, prospered in the middle ages, and was once owned by Prince Schickelberg.

The beer flowed. An excellent three-man band, part of the brewery's brass band, played blood-rousing drinking songs. And the brewery's manager, immensely proud of his beer, twirled around in raptures of delight, making little speeches, beating time to the music, flitting with the PR, badgering the workers to turn the beer faster and heaping his delight at welcoming to the brewery a small group from England. The group was visiting the area at the invitation of smaller Bohemian brewery in nearby Budejovice (formerly Budweis).

In 20 years' time, Prague, the Czech capital, may have reclaimed its position as one of Europe's most cultured cities. It is a marvellous place to go now. But if you want to see how capitalism and democracy are bursting into the dawn in the dawning Czech spring, you could do worse than south Bohemia, especially the area around Trebon and Budejovice.

There are plenty of cheap hotels, more of them more than you can see. And a foaming river of beer. The food is intriguingly simple – but the want of ingredients; the problem is the cooking – but cannot fail to improve. Anyway, this close to the Austrian border, there are numerous fine white wines and plenty of cream cake.

The previous day we had visited the famous brewery (est. 1798) in Budejovice. Samson, the local, is interesting for the foreign friends it is making and for its success in pumping up the volume of exports of Czech lager.

The Zamek brand of premium-strength beer is imported into Britain by Wolverhampton & Dudley Breweries, otherwise known as Banks's. Fran Hayes, Zamek's UK brand



manager, reckons that by 2000 premium lager will account for a quarter of all UK beer sales, and says: "Zamek has been positioned to be recognised as a major participant in the beer market, coming as it does from the land of the lager experts."

Lager was invented by the

Czechs, in Pilsen in 1842. As a result, the marketing effort in Britain can claim that Zamek is a distillation of "Czechness," its strong, golden taste – I am taking this on trust – deriving from a combination of "fragrant Zamek hops, locally grown malted barley, exceptionally soft Czech water

and a special strain of yeast." But that the Czechs need help consuming the stuff. They drink 50 gallons of beer per head per year, the world's highest such consumption.

They have been brewing beer in Budejovice since 1304. It is an airy and pleasant town – capital of south Bohemia, population just over 100,000, thriving tourism, two universities, a re-established tramway system and a new hills library, which replaced the former museum of the workers' revolution. Some good hotels and restaurants, too, including the Hotel Zvon: modern and not expensive. Very little in the Czech Republic is expensive, especially food and lodging at the crystal clear beer can buy almost everywhere.

Not far away is Cesky Krumlov, a splendid medieval town which is now UNESCO-listed. Tourists flock there and can hardly be disappointed, especially by the castle, which has a famous ballroom and a superb late Baroque theatre. This is a great area for walking, music, theatre, dance and exhibitions. From June 17-19 is the annual festival of the five-petalled rose, which includes music, parades, a folk market, night shows and

something called "live chess." On a much smaller scale, I was greatly taken with Trebon and its surrounding forests, moorland, lakes and fishponds. Fish farming, particularly carp farming, started locally in the 13th century; the art of fish breeding is said to have reached its peak in the 19th century, under the rule of the last lord of the Schickelberg family.

An information point in Trebon makes slightly bleak reading. "Have you decided to spend your holidays in Trebon?" It asks. "Maybe you are in town for the first time and we would like to make easier your decision where to go to leisure time. Of many things we have chosen. Walk along Zlatá stezka canal. Walk to the hilllock. Walk to the Rosenberg fish-pond. Walk to the fish-pond."

Trebon is far more appealing than that, with plenty of accommodation, from hotels to private houses. Numerous tour operators and hotels organise holidays in the Czech Republic. It is good to know and is easy to get about. Information: tourist office at the Czech embassy in London: 30 Kensington Palace Gardens, W8 4QT, tel: 071-263 7831/2.

## A perfect Caribbean meal

Surely the ideal setting for a Caribbean meal is a palm-fringed hut on a waterfront, with a perfect view over the beach to a turquoise sea. This would be an ideal place to pass the heat of the afternoon. But this is not the case in many places in the tropics are atmospheric at night.

One of the finest settings of any restaurant in the Caribbean is that of Anacoana in the Turks and Caicos Islands. By day, the view takes in the surreal blue Caicos sea, with the deep ocean in the distance marked clearly by a line of breaking waves and a darker blue, but the restaurant really comes into its own after dark.

Anacoana stands just above the miles and miles of sand of Grace Bay, next to the Grace Bay Club. You dine under palm thatch where tables are laid out in three palapas, open-sided huts with pointed roofs like American-Indian straw huts. But the roofs are supported on a circle of classical columns and so the feel is part straw hut, part temple.

The evening breeze, chopped and chased by the ceiling fans, finds its own path among the tables. In front of the palapas are ranged a number of parasols where other tables sit beside the tropical

greenery. Looking towards the darkness, the palm trees are floodlit and the smoke from flaming torches plays in the glare; beneath them, tall stalks of guinea grass are etched yellow against the black of the night.

The chef is a young Canadian, Stuart Gray, who trained in Canada and then in Britain, working all the time with French chefs. His cuisine is eclectic, he says. He borrows flavours and ideas wherever he travels, and these have found their way into the menu at Anacoana – the fillet of salmon is flavoured with ginger and lime butter and the lobster-tail with saffron. But Gray can also turn his hand to a very fine fillet of steak in a rich red wine and mustard sauce.

Most important, all his food is fresh, which is often a problem in the Caribbean. James Henderson

the Turks and Caicos are close enough to Miami to get the best meats – a regular basis. Gray makes the most of local ingredients, including local lobsters, grouper and snapper, smoking some of them for variety. His desserts are excellent, too, and meals are rounded off with home-made trifles.

If food has traditionally been a problem in the Caribbean, there are more and more passable restaurants opening. They are pretty expensive, but they are an important holiday ingredient. Service can be a little haphazard, but this ought not to be a severe problem when you are adjusting to island time, anyway, and are in a wonderful setting.

Turks and Caicos Tourist Board, telephone: 0062-733930.

James Henderson

### Round the World Ski Expedition

Amie Wilson and Lucy Dicker are trying to ski every day of 1994. They have reached the US mid-west. Amie writes:

If we were sailing instead of skiing, this would be the doldrums. We are not becalmed but snow in the Chicago area is hard to come by in spite of the cold spell. And vertical feet are never a strong point in the mid-west.

After the dizzy heights of Colorado, we have entered the twilight zone of US skiing. We have to reach New York and we chose a route that avoided the better-known resorts in eastern Canada and instead drove across the plains of the mid-west.

Resorts here are so small that you imagine you have seen one from the road and it turns out to be a white barn roof. Imagine the dry ski slopes in Britain with man-made snow on them and you have some idea of the relative size.

Villa Oliver, for all its exotic appeal, is nothing more than a garbage heap cleverly converted into a small ski hill. Do not knock it. What better use could there be for a load of Chicago refuse?

Plenty of Chicago children have learnt to ski there. Ditto Four Lakes Village, with a vertical drop of 100ft and rope tows, the early uphill transport.

Alpine Valley, 380ft, did not exactly tower above the local countryside but it is high enough to have caused the death of Steve Ray Vaughan, the blues guitarist, when his light aircraft crashed in the fog. Nobody had told the pilot there was a man-made hill in the vicinity. Lucy and I had to climb the hill in order to ski that day since the lifts were closed following heavy overnight rain.

We decided to give another mtnrow, Wilnot Mountain, 240ft, a miss when we heard that the owner was reluctant to give us a free ride up to the top of his hill. As we head south to Kentucky and Alabama things can only improve. Or can they?

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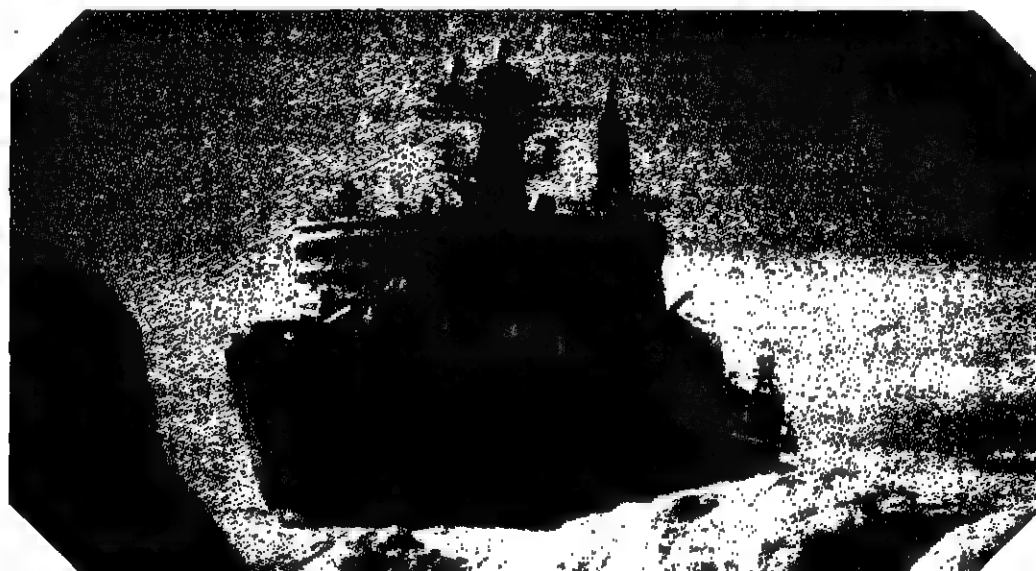
# Surfing close to the edge in ski goggles

wind. His place has gone to Californian helmsman Peter Heck. Dickson has raced with him on the ultimate downwind speed machines, the 70ft Santa Cruz sleds. The underlying message of this is clear. To get the best out of the W60s in heavy air requires at least half the crew to be outstanding, **77** world class, helmsmen. They must also **80** happy to work standing in front of a fire hose.

# Cars to spend your own money on

crushed. Unless you press the pedal right down when you turn the key, the starter will not work. This is something that would be appreciated by absent-minded drivers who leave parked cars in gear.

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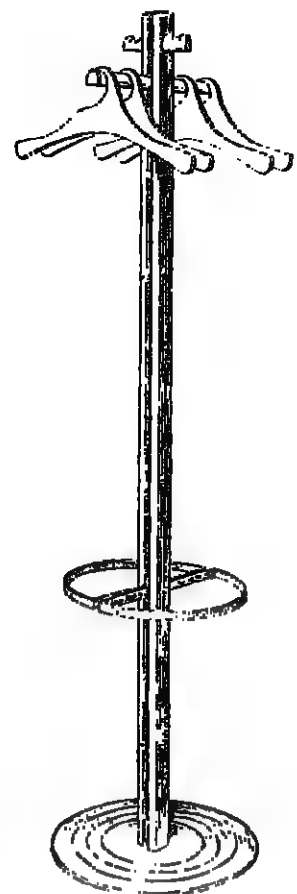
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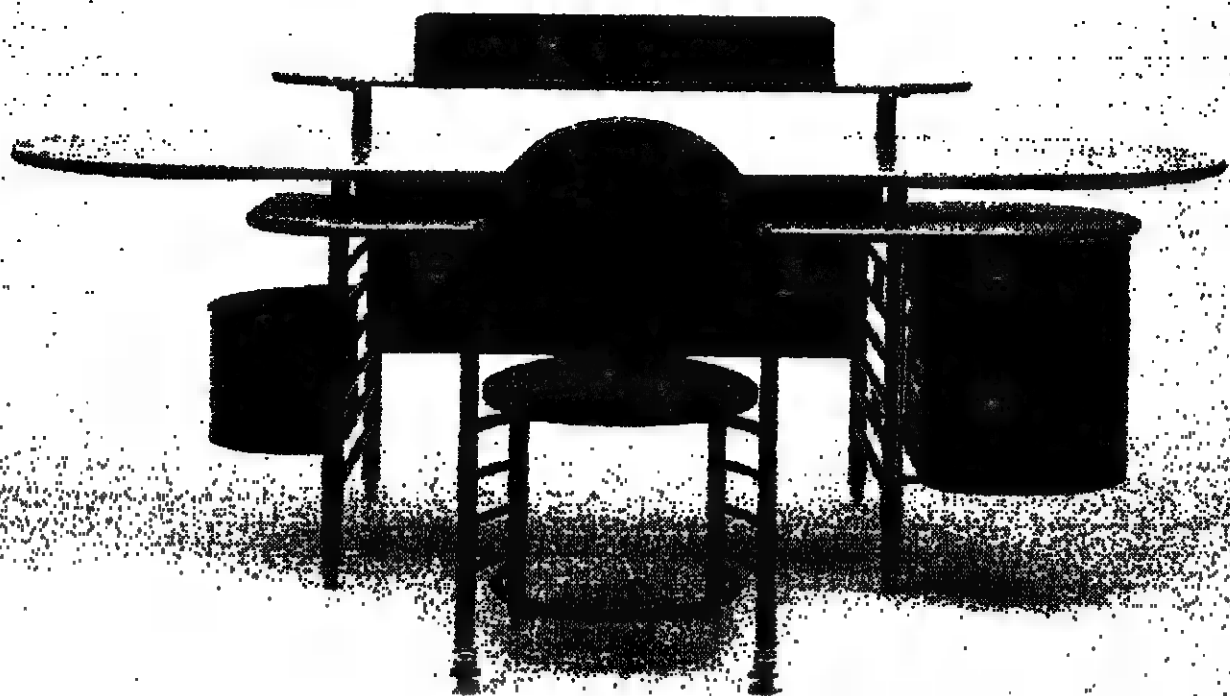


## HOW TO SPEND IT

## Classics for the home



Philip St Pier's coatstand

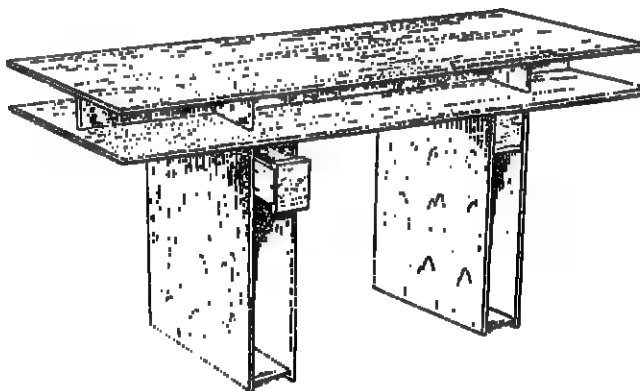
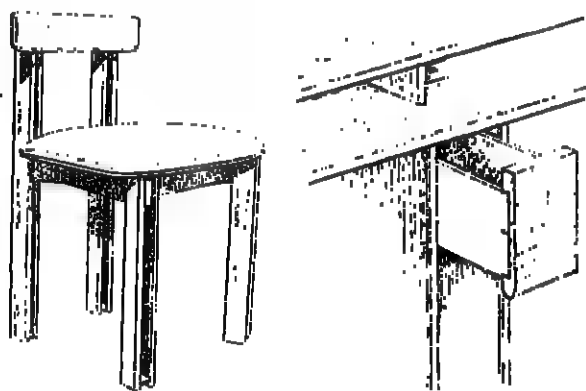


Frank Lloyd Wright's desk and chair originally designed for Johnson's Wax

No-one who has visited Frank Lloyd Wright's Johnson's Wax building for 80 years, forgets it. I still remember how it looked - a cool, tranquil, elegant building, filled with light and air. It was a building I had been in. It stood there, modern, yet classic. Its slender, mushroom columns rising from the floor, a seemingly idle combination of functional and the beautiful.

But what impressed me was that everybody, from the managing director in the humble clerk and office worker, had a Frank Lloyd Wright desk of their own.

Looking for a desk that is beautiful enough for domestic use and practical enough for work? Lucia van der Post has the answer



A chair, detail of a drawer and a desk from Philip St Pier's Consort collection

Originally designed in the 1930s they are still in use and still look elegant. Anyone who is looking for a desk that is beautiful enough to fit into a domestic setting and practical enough to use in the office will find S C Johnson's reproductions.

After a long courtship Cassina, the Italian furniture manufacturer, finally gave permission to S C Johnson to have access to the original prototypes, drawings and stencils and to use them to make a desk and chair that is a faithful reproduction of the original design. A sturdy design of this quality does not come cheap (£3,290) but it is of superb build and quality.

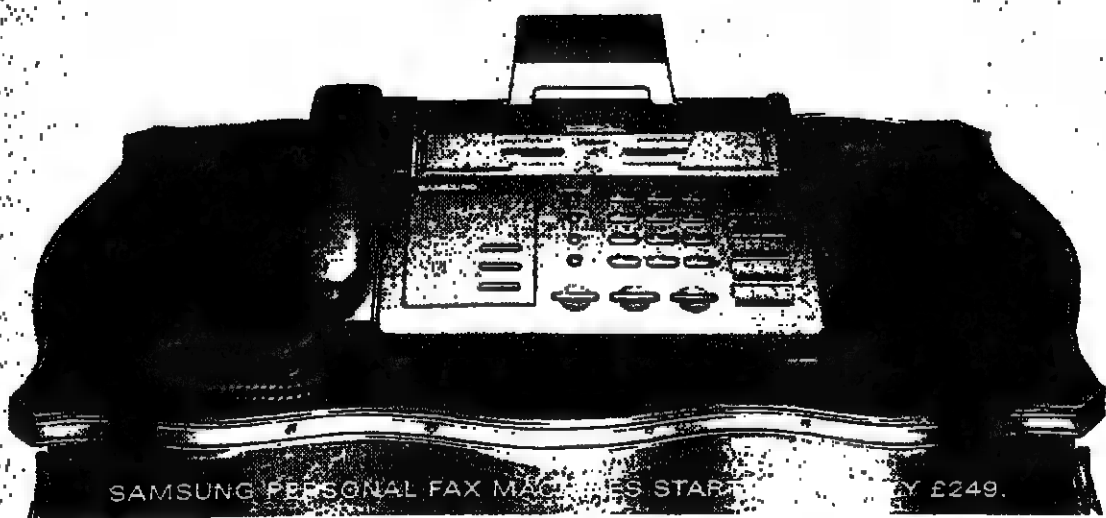
There is a very limited choice of colours - a dark red frame topped by cherry wood.

The desk is the closest colouring to the original or a black, polished top on a black metal frame.

Anyone wanting to know more about the furniture should visit the Frank Lloyd Wright room at the Victoria and Albert Museum in London where the desk and chair are on display.

On the other hand, the desk and chair are also available in a range of other materials and finishes. The desk can be made in a range of materials and finishes. The chair can be made in a range of materials and finishes.

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SAMSUNG ELECTRONICS



Gossard's Balconette

## Taking the plunge

Not since Madonna strapped a black, pointy corset to her bust have bras been as inescapably visible. This time, the commotion is the Wonderbra, undisputed queen of the push-up-and-plunge market for 30 years until January when a rival, Ultrabra, declared itself the "ultimate in cleavage."

The background is this. The Wonderbra was first made in 1964 by Canadelle, a sister company of Playtex. Canadelle's Canadelle held the licence from 1964 until 1993 when Playtex snatched it back.

With magazines such as Vogue promising a return to curves and a farewell to the superwaif, Playtex could hardly allow arch-rival Gossard to hang on to the lucrative production of the Wonderbra, which has 13 per cent of the UK bra market.

Playtex has the Wonderbra name, is spending £1m promoting the range of bras, bodices and panties. There have been giddy launches, a surfeit of newspaper puns - Storm in a D-Cup, Bra Wars, the Breast is History - and a cheeky poster campaign.

Gossard is spending a reported £2.7m on the Ultrabra, which is the inexpert eye resembles the Wonderbra. It is made to look like the Wonderbra, but it is not. It is made to look like the Wonderbra, but it is not.

Should those seeking cleavage pick Gossard, with its 30 years' experience making the Wonderbra, or Playtex? Or are the two bras as similar on performance and design as they are on price (£12.99 for the Wonderbra, £14.99 for the Ultrabra)?

On the other hand, the two bras look different. Gossard, freed from the production requirements that were tied to the Wonderbra, has made changes. Its straps are more angled away from the cups, for uplift, and it looks slightly more athletic with a pearly lace between lower-scooped cups.

Gossard will not give details of the "refinements" it has made to the Ultrabra market to produce. Mark Pilkington, the marketing director, calls the 46 components and 28 sewing steps the "miracle system". "Essentially, it is underwired for uplift, and the way it holds the bust down helps to push the front up," he explains.

The Wonderbra has hardly changed. Playtex is not attempting to stray from the principles that made the bra a success 30 years ago - the firm forbids such change. The bras are made of strong nylon powernet, with a "very sharp angle" to the cups, to make sure that "the cup will sit around the breast at a slight angle pushing it forward to the front of the body for maximum cleavage."

The difference can only be felt from the wars. Gossard and Playtex have introduced different fabrics - broderie anglaise, satin, and lace - raspberry, navy and flame. You will probably need a larger size than you think. Gossard and Playtex's size of sizing has little to do with reality and everything to do with flattery.

Rachel Johnson

## Such a handy winter warmer

The gloves are off as Lucia van der Post beats the cold snap

Just back from Kenya and Tanzania (yes, thank you, I had a smashing time and I hate to tell you but it was hot, hot, hot) to find England reeling from the cold.

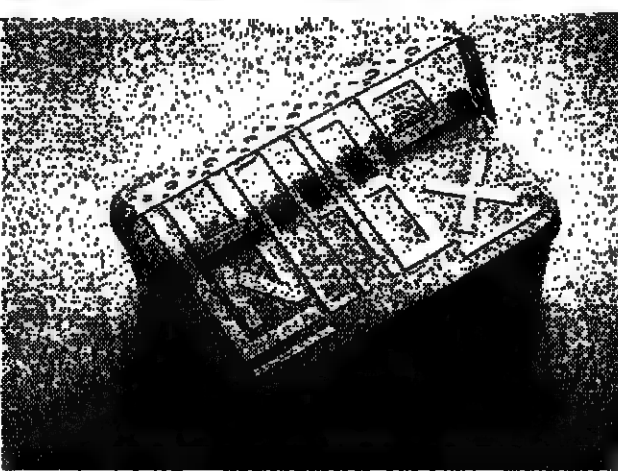
Time to try out a pair of Tollybands. Some of you may remember that, long ago when the world was young, people in rural areas used to wear sheepskin mittens to keep their hands warm.

Primarily designed for those who needed to keep their hands free in cold weather - tennis players, gardeners, stall-holders, gardeners - Tollybands felt really cold without them as well as gloves.

Tollybands are a revival of the old mittens and I have to report that they work. The reason why is that they keep the blood flowing into the hands warm. Even in this week's freezing weather they kept my hands warm without gloves.

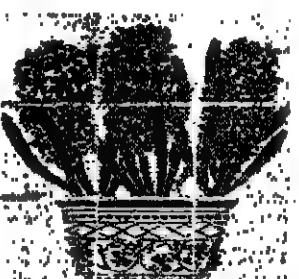
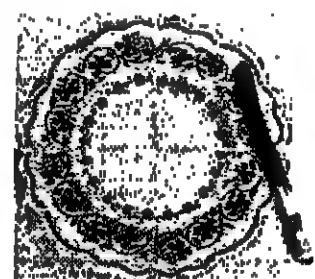
Tollybands come in a range of colours - the choicest being bottle green which would blend wonderfully with all those ubiquitous wool cotton jackets. Those addicted to other colours will find something to match.

They cost £14.99 a pair (including p&p) from Tollybands, Old Mill House, 111 Box 70, London SW3 5XU.



Marlboro Hambro told it was time to revive the old-fashioned lunch-box. She, for instance, uses it to carry all her daily needs (you and I need it a handbag and Nathalie is not one of the best). It is ideal by discerning shops such as David Mellor, 111 & Sloane Square, London SW1, Jerry's Home Store, 183-187 Fulham Road, London SW3 and Liberty of Regent Street, London W1. The price is about £15.50.

conveying a sense of style and class. Not that it is only a lunch-box. She, for instance, uses it to carry all her daily needs (you and I need it a handbag and Nathalie is not one of the best). It is ideal by discerning shops such as David Mellor, 111 & Sloane Square, London SW1, Jerry's Home Store, 183-187 Fulham Road, London SW3 and Liberty of Regent Street, London W1. The price is about £15.50.



Decorative tiles have been out of favour in the last few years - not grand enough for the Baroque school of decorating and much too sweetly pretty for the minimalists. They must be due for a revival. Marlborough Tiles is a small company making high-quality ceramic tiles which are widely stocked throughout the UK. Those whose tastes run to the rustic and charming can choose the pretty floral whilst those who prefer a little wit

can go for the bronze, lead, slate, marble, turquoise, jugs. The panels are sold in sets - this trompe l'oeil plate, for instance, takes four tiles and would cost £17.63. The hyacinth panel needs nine tiles and costs £52.88. They can be used as panels in work-tops or splashbacks. Marlborough Tiles is at 111 Lane, Marlborough, Wiltshire SN8 2AF. Ring 01673 811111 for stockists or to place orders.

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## FASHION

# But is your uniform correct?

In our series of dress codes around the world, FT writers look at what to wear on the golf course



## LONDON

Brenda Polan

Golf is, of course, a Scottish game. Its earliest players trudged in misty weather in serviceable, dun-coloured tweeds, traditional woolies, rugged plus-fours tucked into thick long socks, stolid brogues and a rain-deflecting flat country cap.

Women - for the game was initially neither gender nor class-limited - tended to vary the uniform only in the matter of a long skirt, later a divided one.

Once you remember those practical origins, today's lurid golfing uniforms are easy to understand: their essential four-weather nature has merely been corrupted by effete southern taste, advances in fabric technology, American vulgarity and Florida's climate.

Arguably, golf is the one sport for which special clothing is unnecessary. Providing footwear is sturdy, gripping and comfortable and the rest is unrestricting, what need for pastel argyle-patterned sweaters, loudly striped slacks, luridly two-toned zipper-fronted cardigans, green-violet polo shirts or spitefully spiked shoes?

The need, of course, is acceptance. Golf's uniform is about belonging to the class of chap or lady - they certainly still call them ladies in proper golfing circles - who belongs to a

golf club. Britain is well-served with municipal golf courses and persons do play there in their traditional plumage, but that is not at all what golf is about in modern Britain.

For most of the participants, golf is a whole, narrowly policed social scene, a bastion of middle-class safety to which outsiders may aspire but which is closely guarded against them. Within its bunkers business deals are done, nephews are fixed up with first jobs, loans are made at advantageous rates of interest. It is all easily done because it all happens between what golfers fondly believe are their own kind.

So the uniform, achingly unstylish, is a signal system denoting a set of values to which its wearers all subscribe. That these values are hardly altruistic or even idealistic is demonstrated by America's Ryder Cup team when its peevish members refused to shake the hand of the president who had just bestowed taxes on their enormous incomes.

As Mary Evans once observed, all specialised sports gear eventually becomes fashion's eye and becomes sexy. As it did not add, but might have: except golfing gear - too middle class, too complacent, too ugly.



## TOKYO

Michiyo Nakamoto

For the Japanese men and women who are wealthy enough to frequent the country's golf courses, fashion on the green is a serious matter.

And just as strict conformity to the dress code in the office or on formal occasions is taken for granted, those on the golf course are expected to play by the rule of a conservative good taste.

So, men on the course will commonly be seen in trousers, polo shirt and vest while women tend to opt for skirts that come to just above the knee or culottes which are easy to move in. Their distinguishing feature is their conformity to the "golf look," you can spot them a mile away.

As for other occasions, Japanese players in rain or mist favour designer-clothes from Christian Dior in Y-styled Saint Laurent. In addition to the famous French names, in the past, traditional names from Britain, such as Burberrys and Dunhill, also go a long way.

For those who prefer a more casual look, and accessible prices, then white Dior or Dunhill sweaters, blouses or countess names from the world of golf to adorn the pocket or cap.

Among the more popular are the Jack Nicklaus signature with his polar bear symbol and

Arnold Palmer with an umbrella. Such signatures can be found only on clothes but on everything from hand towels to socks and accessories.

Even though it is more often than not associated with business in Japan, golf being a social occasion and increasingly popular among well-off housewives, more colour than is seen on Tokyo's streets can be enjoyed in the choice of clothes worn on the green.

Men who are normally restricted to drab grey and navy suits, do not hesitate to appear in bright green, sky blue or lemon when it comes to a day swinging the iron club.

But the real fun of dressing up for golf, the women say, comes after the game is over.

Even in Japan, more people are taking advantage of their leisure time to indulge their taste for sport, both as a physical exercise and a chance to mingle with others. That in turn has led to a growing taste for casual chic.

So, after a long, hot bath at the country club to revive both the body and spirit, the women will join up with their men, looking refreshed in their cashmeres and tweeds, wearing blouses from Italy, perhaps, and sporting a bag made in Spain.

Drawings: Lucinda Rogers

## NEW YORK

Patrick Harverson

Being asked to describe what Americans wear on the golf course immediately brought to mind a sketch from the British television show *Not the Nine O'Clock News*, the one which ridiculed golfers as men doing battle in an elaborate ugly-trouser competition. "And it's Weiskopf now, putting for a birdie, wearing an exceedingly silly pair of trousers..."

Yet, it would be unfair to lump New York's golfers in with the silly-trouser brigade, for they are a different breed from their canary counterparts in Florida and California. Perhaps in keeping with the north easterner's patrician, faux-European sensibilities, in recent years New York golf fashions have tended to be more stylish, the colours subtler, the patterns less stomach-churning. A new look is emerging as a younger generation of golfers seek to avoid... well, looking too much like golfers.

Thus, the starched, brightly coloured red-white-and-blue shirts of old are out. In their place are baggier golf shirts in moodier browns and olives or sensitive teals and taupes, and looser, more stylishly cut trousers that would not look out of place in a chic restaurant.



The city's golfers, it seems, are sick of wearing clothes that have to be stashed away in embarrassment as soon as the last putt has been holed. In their search for the complete, all-purpose casual wear, men are turning to labels like Lauren's Polo, Bobby Jones, Cutter & Buck, and Hill, while women new designs from established names like Bogner, Nordstrom and Evan Picone.

Essentially, golfers want to return to the elegant days of the 1930s and 1940s, when people regarded a round of golf as an excellent opportunity to get in some exercise and show off the latest dunder.

There are, however, a few golfers in New York, as there are everywhere, who think that if they dress like the pros, they will play like the pros. This means there will always be someone on the course wearing a hideously bright shirt with a white-shark logo marketed by Australian star Norman, or a garish shirt and plus-fours like the ensemble that Payne Stewart wears to every tournament. In spite of their reputation for savviness, New Yorkers do not seem to realise that at least the pro golfers get paid to look stupid.

## FRANKFURT

Christopher Parkes

The pretty golf course at Kronberg, 30 minutes outside Frankfurt, is a quiet place at the best of times. The sound of club on ball is rarely followed by anything more than appreciative mutterings, and, naturally, the occasional clunk of ball on an out-of-bound tree.

The players dress in keeping with their decorous behaviour. Long-distance observations by a non-player suggest that in the peak season, summer, women's dress falls into two categories: pretty and sporty.

The first classification requires a white or pastel frock. Together with matching

ankle socks the ensemble is reminiscent of 1930s tennis rig. The sporty look requires at least knee-length shorts with turn-ups, in a choice of pale cottons or light plaids. A cotton eye-shade and a Ralph Lauren polo shirt - or anything with one of the thousands of "designer" logos which litter German leisure wear - wrap things up.

There is one category for men's outfits: pretty sporty, but uniformly in the Bernhard Langer style. To judge by appearances, it is a breach of club rules to be under-equipped. Even the most casual thrash-about in the undergrowth seems to

require a full set of clubs (with hats), state-of-the-art trolley, gloves, cap, sweater, pocket knife and trenching tool.

But there is rarely a sign of the crunchy waterproofs and the over-sized umbrellas so common in Britain. Swinging in the rain is not a favoured occupation among Frankfurt's fair-weather denizens of the fairways.

The Kronberg turf is clearly a place for being seen, not for getting wet. If it is raining, or even cold, it's time to retreat to one of the area's dozens of covered tennis courts.

## PARIS

Alice Rawsthorn

There are some areas of life where the French are incorrigibly conservative and golf is one of them. The ritual begins with the choice of club. Any old golf club simply will not do.

The place where a Parisian plays golf speaks volumes about his, or her, status. So the

swankier the club, the better. Saint-Cloud, which boasts President Mitterrand and half the cabinet among its members, is the swankiest of all followed by La Boule and Chantilly.

Yet the uniform is the same wherever you play. Parisians, predictably, dress just as smartly for a few hours on the golf course as they do for any other event. A polo shirt and shorts (neatly cropped just above the knee and tapering to the waist) are de rigueur for summer as are well-cut trousers and a V-neck jumper over the polo shirt for winter.

Colours are subdued. White is popular for golfing in warm

weather, with occasional glimpses of blue and green for light relief. Shoes are snowy white: the very shade to show off a Côte d'Azur tan to perfection.

Hats are acceptable as long as they leave enough room for Ray-Bans and co-ordinate with the other clothes. French golfers tend to regard clashing colours, jaunty ballcaps and two-tone shoes as strictly for the Americans.

Anyone who thinks they might be able to worm their way into one of the more sought-after French golf clubs without the requisite kit is doomed to disappointment. Bernard Tapie, the former socialist cabinet's token "medallion man", sauntered into Saint-Cloud last summer to deliver a speech. The doorman told him to leave. Saint-Cloud, he said, was for members only and Tapie was not one.



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## TELEVISION

## SATURDAY

**BBC1**  
7.25 News, 7.50 Waking the Dog, 7.55 Peter Pan and the Pirates, 8.15 Chudovitsky, 8.35 The Pantomime, 9.00 Live and Kicking, 11.42 Weather.

11.45 Olympic Grandstand. Introduced by Steve Rider and Sue Barker. 11.50 Winter Olympics: Bobsleigh - The four-man event. Siding. The women's slalom, 12.50 News, 12.55 Racing from Haydock Park. The 1.00 Queen of Hearts Handicap Hurdle, 1.10 Football, 1.25 Racing: The 1.30 Crowthorne Hurdle, 1.40 Winter Olympics: Further coverage from Lillehammer. 1.55 Racing: The 2.00 Granville Gold Cup (Handicap Chase), 2.10 Winter Olympics, 2.25 Racing: The 2.30 Potosi Victor Ludorum Handicap, 2.40 Winter Olympics: Further coverage from Lillehammer. 2.55 Rugby League: Castleford v Widnes in the Challenge Cup sixth round, 3.45 Football Half-Times, 3.55 Rugby League, 4.35 Final Score, Times may vary.

5.15 News, 5.25 Regional News and Sport, 5.30 The New Adventures of Supermax.

6.15 Noel's House Party. Noel Edmonds hosts as Cheers star John Ratzenberger makes a guest appearance, and Fiona Armstrong receives the infamous Goshie Oscar.

7.15 Big Break. Mike Hackett, Silvio Francisco and Joe Swail cue up to take part in the season-based quiz.

7.45 Birds of a Feather. Three organless prisoners' wives and husbands support group meeting - an action with far-reaching consequences for Sharon when she falls in love with a fellow inmate whose jailbird wife is due for imminent parole.

8.15 Casualty. Mike and the accident and emergency staff struggle to cope with a sudden influx of patients, but their efforts are severely hampered by Charlie's mysterious absence, the admittance of a drug addict and the arrival of a would-be suicide brandishing a gun. Hospital drama, starring Derek Thompson and Clive Mantle.

8.05 That's Life, 8.45 News and Sport: Weather, 10.05 Match of the Day. Desmond Lynam introduces highlights from today's FA Premiership matches.

11.10 Film: 95 House. A true-life thriller, starring Peter Strauss (TVM 1990).

12.45 Bowls: World Indoor Championships. Highlights from the day's play.

1.45 Weather, 1.50 Close.

**BBC2**  
6.00 Open University, 12.15 Film: To Kill a Mockingbird. Racial drama adapted from Harper Lee's book. Gregory Peck won an Oscar for his performance as a lawyer in a small town in America's deep south who risks public condemnation to defend a black man accused of rape (1962).

2.20 Film: The Count of Monte Cristo. Sweeping historical adventure, starring Richard Chamberlain as a French nobleman intent on revenge after being wrongfully imprisoned (1875).

4.00 Sporting. Insight into the work of the parliamentary committees.

4.30 Bowls: World Indoor Championships. Action from the final match in the fastest round, featuring defending champion Gary Smith and Andy Thomson.

5.15 Winter Olympic Grandstand. Presented by Steve Rider and Sue Barker. Speed-skating: The final of the men's 500m short-track event, with World Champion Will O'Reilly and current European champion Nicky Gooch, both of Britain, among the challengers. Commentary by David Coleman. Ice dancing: Highlights of the traditional end-of-competition exhibition, described by Alan Wicks and Barry Davies. Plus, news from the women's slalom and men's bobsleigh. Helen Rollason and Hazel Irvine commentate.

8.35 Unplugged. Eric Clapton performs a selection of songs close to his heart in this rarely seen concert filmed in 1991.

8.00 Arena. A profile of Paul Lynch, the world two-time, one-arm and one-leg press-up champion, as he visits Northern Ireland to compete in another of his one-arm and one-leg bare-knuckle boxing. Victory brings status and acclaim among the devotees of this illegal sport. The programme also features a documentary on the controversial subject of violence on TV.

10.05 Between the Lines. Hard-hitting police drama, starring Neil Pearson, Tom Geoghegan, Siobhan Redmond and Jack Shepherd.

10.55 Film: Open Doors. A kindly judge tries to save a murderer from the death penalty. Powerful courtroom drama, starring Glen Mark Volante (1990, English subtitles).

12.45 Later with Joella Holland, 1.40 Close.

**LWT**  
6.00 GMTV, 6.25 What's Up, Doc? 11.30 The ITV Chart Show, 12.30 pm Movies, Games and Videos.

1.00 ITN News: Weather, 1.05 London Today: Weather, 1.10 Champions' League Special. Preview of Wednesday's European soccer action as Arsenal prepare for a difficult away leg against Italian Serie A side Torino in the cup winners' cup.

1.40 NBA Basketball. Alton Byrd introduces the game of the week, 2.45 International Athletics. Sally Gunnell, Linford Christie and Colin Jackson lead the line-up in this climax to the British Indoor Championships at the Birmingham's Alexander Stadium.

4.40 ITN News and Results; Weather, 5.00 London Tonight and Sport: Weather.

6.15 Film: Live and Let Die. Roger Moore, in his first appearance as James Bond, becomes mixed up with West Indian voodoo while chasing a master criminal in the Caribbean (1973).

7.30 Barrymore. Star-struck amateurs demonstrate their talents on stage, including metaphysical healer Rosie Andrews.

8.30 Beattie's About. Jeremy Beattie plays pranks on the public.

8.00 ITN News: Weather, 8.10 London Today: Weather, 8.15 Caught on Camera. Michael Angel presents dramatic rescues and real-life triumphs captured on film, and the people involved with their stories.

8.35 The second of two special features featuring a blazing inferno that reached 4,000 degrees Fahrenheit and destroyed 3,000 homes, a circus elephant that went berserk with passengers on its back, and a man who went over Niagara Falls in a potato.

10.30 The Big Fight - Live! Nigel Benn v Harry Wharton. Action from Earl's Court.

11.30 Comedy Club. With Alastair McGowan, Caroline Aherne, Patricia and Naylor, The Rubber Bishops, and Alan Davies.

12.00 Film: Kojak: It's Always Something. Kojak comes into conflict with former turned-lawyer Crocker, who is prosecuting a policeman for murder. Terry Saville and Kevin Robson star (1989).

1.45 Tour of Duty, 2.40 The Big E, 3.35 Travel Trails, 4.00 News Music, 5.00 SPIN.

**CHANNEL4**  
5.00 4-Tel On View, 5.35 Early Morning, 10.00 Tony Jackson's Pro-Celebrity Golf, 11.00 Gossamer Footie, 12.00 World Tennis, 12.30 pm Islamic Conversations.

1.00 Film: Laughter in Paradise. Alastair Sim and George Cole stars in this comedy tale about a deceased jester's four legacies - each with a sting in its tail (1951).

2.45 Racing from Kempton Park. The 3.00 Adonis Hurdle, 3.35 Pendi Trophy Hurdle, 4.10 Racing Post Chase Handicap, and the 4.40 Rendisham Hurdle.

5.05 Brooklands, 6.30 Reply to Reply. Viewers' verdicts on recent TV programmes. Hosted by guest presenter Roger Bolton.

7.00 A Week in Politics. In-depth recap of the week's important parliamentary developments. News Summary.

8.00 Baka: People of the Rainforest. Second of the award-winning two-part drama-documentary studying the lives of the pygmies inhabiting the rainforests of East Cameroon, and their struggle to survive the pressures exerted by the modern world.

9.00 NYPD Blue. Kelly and Spawick are assigned to investigate the disappearance of a young boy, and Gledits is stalked by a mystery assailant. Events take an even more hairy turn when a key murder witness comes forward but claims special treatment on the grounds that he is a war hero.

10.00 Don't Forget Your Toothbrush. Meet Jason Lewis, a successful, well-known actor who is struggling to win a dream holiday in Barbados.

11.05 United States of Television. Offbeat insight into the world of American TV, including a selection of exercise clips by everyone from Liza Taylor to Estelle Getty and postcard star Linda Lovelace. Plus, a look at a new generation of advertisements for personal products, and a report on the million dollar business of telephone psychic.

11.50 Broadway Stories. Mike McShane narrates the Darnley Parry tale about a man who tries to impress his sweetheart by claiming to have had a cornucopia.

12.30 Late Licence, 12.35 Viva Cabaret, 1.30 It's Roger Melt: The Man on the Street.

1.35 Harman's Head, 2.10 The World, 3.10 Frase, 4.05 Close.

**REGIONS**  
ITV REGIONS AS LONDON EXCEPT AT THE FOLLOWING TIMES:-

ARLW: 1.05 Anglia News, 1.40 Kent News, 4.35 Anglia News and Sport, 8.10 Anglia Weather, 11.30 Oxford by Inverness (1983).

BORNE: 1.05 Border News, 1.40 Superstars of Wrestling, 2.30 Roadsport, 5.00 Border News and Weather, 11.30 Oxford by Inverness (1983).

CENTRAL: 1.05 America's Top 10, 1.05 Central News, 1.40 Teletext, 2.10 Speaking Our Language, 4.35 Central News, 5.00 Central News, 5.30 Central News, 8.10 Local Weather, 11.30 Oxford by Inverness (1983).

GRAMP: 1.05 Grampian News, 1.40 Superstars of Wrestling, 2.30 Roadsport, 4.35 Grampian News, 5.00 Central News, 11.30 Oxford by Inverness (1983).

ITV: 12.30 The Great One, 1.05 HWT News, 1.40 Sell the World, 2.10 Movies, Games and Videos, 5.00 HWT News and Sport, 8.10 HWT Weather, 11.30 Oxford by Inverness (1983).

ITV Wales as ITV except:- 12.30 The Latest Hour, 5.05 Central News.

ITV Yorkshire: 1.05 Meridian News, 1.10 Sell the World, 4.35 Meridian News, 5.10 Central News, 11.30 Central News, 11.30 Oxford by Inverness (1983).

ITV Yorkshire: 1.05 Meridian News, 1.10 Sell the World, 4.35 Meridian News, 5.10 Central News, 11.30 Central News, 11.30 Oxford by Inverness (1983).

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## CHESS

Guessing the winner's moves in a grandmaster game is among the best ways to improve. You cover the score with a card and award yourself, say, three points for the move played down to zero for a blunder. For maximum effect, time yourself with a chess clock.

How Good is Your Chess, by Daniel King (Cadogan £9.99), is more sophisticated self-improvement. King, the Bymonic Channel 4 commentator, selects 20 GM games and awards points on a scale from novice to grandmaster, with lively and helpful commentaries.

The publisher has caused some practical difficulties. Even the non-cheating eye can hardly avoid the large diagrams, while opening the book flat may damage the binding. Here, you have to predict White's choices from move 11 onwards. King believes the key decisions are at moves 11, 14, 16, 17 and 28, each counting at least four points towards the 70 maximum for the game. Score right on them all, and you are en route to your master file.

2. Lebrun, White: Deep Thought, Black: IBM Cup 1991. 1 Nf3 d5 2 g3 c6 3 Bg2 Bg4 4 c4 e5 5 b3 dxc4 6 bxc4 Nf7 7

Solution Page XXV

Leonard Barden

## BRIDGE

Do not miss All 52 Cards, by Marshall Miles (Declarer Hale £5.99). For good declaration play or defence you must visualise all 52 cards, not just the 26 you can see in your hand and on the table. We consider a hand from match-pointed pairs, which is most instructive:

W ♠ 7 6 4 3 2 ♠ Q 10 3 ♣ 9 6 4 3 2 ♣ K 7 5 3 ♠ A Q J 10 3 ♠ K 9  
E ♠ A 10 8 ♠ A 10 8 ♠ A 10 8 ♠ A 10 8  
♠ A K 9 5 2 ♠ A 10 8 ♠ A 10 8 ♠ A 10 8  
♠ A 10 8 ♠ A 10 8 ♠ A 10 8 ♠ A 10 8  
♠ A 10 8 ♠ A 10 8 ♠ A 10 8 ♠ A 10 8

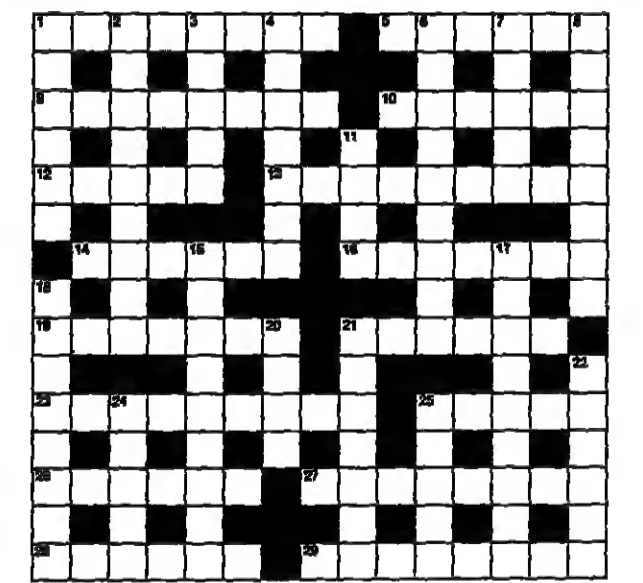
East deals, with neither side vulnerable, and opens with one heart. South competes with one spade and West jumps to four hearts. North makes an optimistic bid of four spades and East's double concludes the auction.

E.P.C. Cotter

## CROSSWORD

No. 8,390 Set by CINEPHILE

A prize of a classic Pelikan Souverain 800 fountain pen, inscribed with the winner's name for the first correct solution opened and five runner-up prizes of 25 Pelikan vouchers. Solutions by Wednesday March 8, marked Crossword 8,390 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 8HL. Solution on Saturday March 12.



Name: \_\_\_\_\_ Address: \_\_\_\_\_

1 Have another dig at economic- (8)

2 See 22

3 Insectivorous bird makes warden of Tower lose nose face (5)

4 Make portraits of Zeno and Epicurus (6)

5 Anonymous friend gets egg like this (5)

6 Competed irregularly for eggs like this (9)

7 Pool in place of flowers for eggs like this (6)

8 Stole eggs like this (7)

9 Eggs like this are spoiled (7)

10 Americans have eggs like this in 'ouse that's rented (6)

11 Eccentric American to apply reverse spin? (9)

12 We returned after having something wrong with tendon (5)

13 Flower of gold with a number cascaded (6)

14 Let vicar reform, becoming upright (8)

15 Long letter giving smooth finish (6)

16 Engineer an enthusiast, gets a snub (6)

17 Bronzed, it may be, by old Turkish port (6)

18 Deaf from original country (5)

19 Vulgarly aroused before press? (7)

20 Create a piece - create about a hundred - to see at (15, 4)

21 30 Rude snub reveals fear about opus 500 (1, 4)

22 One they will change to be without reproach (4-5)

23 Upbeat makes one colour and sheds tears (3, 3)

24 A divine party? (8)

25 See 11

26 Lubricate copiously? (3-4)

27 5 time for raised hands (6, 15)

28 Repeat dealing with dog (6)

29 Left insect in cow house in Malawi (8)

30 Engineer an enthusiast, gets a snub (6)

31 Bronzed, it may be, by old Turkish port (6)

32 Deaf from original country (5)

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73 Bronzed, it may be, by old Turkish port (6)

74 Deaf from original country (5)

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How sad it is to have to confirm that, on the sporting field, from the sweltering cricket pitches of Jamaica to the icy rinks of Norway, Britain has become not just a nation of losers, but a nation of bad losers.

Of the reports in yesterday's newspapers of the England cricket team's loss to the West Indies, on average about two-thirds of the space was given over to whingeing about the allegedly unfair treatment meted out to Devon Malcolm (England) by Courtney Walsh (West Indies). For those who, perhaps wisely, have avoided reading these interminable moans, the single fact involved is that the West Indian fast bowler subjected the least able English batsman to a

## Gentlemen, players – and bad losers

Dominic Lawson wonders why the British whined so when Torvill and Dean were beaten

series of short-pitched deliveries, during which the Englishman scored 18 runs and, in return, took four blows to his body.

Among the English commentators who have rushed to denounce Walsh is Bob Willis. Now Willis was for many years England's most destructive fast bowler, and by no means averse to a bit of intimidation, especially against the weakest international opposition. Willis has perhaps forgotten the time one of his well-directed bouncers removed some of the teeth of Iqbal Qasim, then the undisputed rabbit of the Pakistani team.

The whining behaviour of the English press, not all of whom, at least, could be accused of hypocrisy, is particularly unappealing, given Malcolm's own response.

"It's just part of the game," he said, adding with the sort of stoicism that we associate with the English gentleman: "It's only pain."

That is where the debate should have ended. But instead the bad losers of the sporting press carried their whingeing on to the front pages. This time the target was the group of men and women who judged the ice dance competition at

the winter Olympics.

Apparently it was inconceivable to the 23m people who watched the competition on BBC Television that the British couple, Torvill and Dean, could have failed to win. After all, 23m people would not be watching something as fatuous as an ice dancing competition, unless it were to see an English couple winning. So it must have been a conspiracy by foreign judges that prevented the rightful and predicted English victory. And, conveniently, it was a German judge who gave the lowest marks to the English couple.

It did not take many commentators long to recall that it was a German referee who "robbed" the English football team in its World Cup qualifying match against the Netherlands last year.

Ice dancing is a completely bogus sport, particularly as an Olympic event. Let these bland looking couples do their dances on the ice if they must, but let us not pretend that it is possible objectively to decide, in the precise order of one to 20, which of them is best, second best, third best, and so on. Still less should we believe that the public, and its cheer-leaders in the press,

are capable of distinguishing precisely between the merits of Torvill and Dean as opposed to those of Grishchuk and Platonov, and Uesava and Zhulin, the Russian pairs who gained the gold and silver medals.

I doubt whether more than a tiny proportion of the 23m viewers could now remember even the names of the winning Russian couple. But I do wonder why we British have become such consistently bad sporting losers. Perhaps it is simply that we have recently had a lot of practice at it. Or perhaps there is some more profound reason.

When Britain was a pre-eminent economic and political power it mattered relatively little whether we also ruled the sporting world. When you are controlling a third of the world's population you can afford to be a little generous on the sporting field.

Even when we failed to win, we knew Britain was still the greatest nation on earth, and no mere loss of a cricket game could change that. And if the other side used unfair methods, that merely confirmed British superiority. But now that the pattern of world affairs leaves us with no special place in the sun, we have become petulant and bad tempered. And as children of the welfare state, we are very much at home with the thought that whatever goes wrong is always someone else's fault.

■ Dominic Lawson is editor of The Spectator

Private View/Christian Tyler

## The taming of a lion of literature

The 1930s – Berlin, Spain, socialism and homosexual love – defined him. The 1950s – he was enshrined in the poetic quadruped that Roy Campbell called MacSpaunday – MacNeice, Spender, Auden and Day-Lewis.

What happened in between? Stephen Spender, 85-years-old on Monday and with a rare volume of new poems to mark the event, says that somewhere around the middle of his life he became domesticated.

"I think I got so much involved in things largely to do with earning money and supporting my family," he said. "I can't look back on my last 40 years as a kind of legendary, private, personal thing."

Do you mean you've been too successful for a poet? Too suburban?

"Yes, very bourgeois. Too much so, I think. And I regret that, very much. I wasn't when I was young, because I went to Spain during the civil war and lived with a friend of mine, a working-class friend." (He means the youth he called Jimmy Younger in his 1951 autobiography).

"And I don't go to pubs. I often think my life would be much richer if anyhow I'd gone to pubs all the time."

Why do you say that?

"Because I think this a very limited existence and a limited view of existence. One has to realise that self-interest is a very high priority: one's standard of living becomes a very high priority, you see. But that is all to do with family... Then friends have been very important."

The young idealist who used to talk of "going over to the proletariat" has lived in a rented villa in fashionable St John's Wood, London, since 1945. The house is painted blue, inside and out. There he lives with his second wife (his first marriage was brief), Natasha Litvin, a Russian pianist. They have a son who paints and a daughter who writes: she is married to the female impersonator Barry Humphries, which makes Spender Dame Edna Evergrey's father-in-law.

I asked him if the bourgeois life had been bad for his writing.

"My writing would probably

be different. I don't think it's really bad for my writing. I mean, I think in a way my poetry is all one long poem. And I think – I hope – that it's moved outwards from being about myself, discovering my own identity, partly into discovering other people's and partly about the historic period we've lived in. That's extremely important, isn't it?"

"There's something very unreal about middle-class life today. You can sit eating a lamb cutlet and you have television on and you see a child in Asia somewhere starving to death in front of one's eyes, or people being murdered."

"What do you do? Do you stop eating the lamb chop, do you turn off the television?" He laughed, tickled by the dilemma. "I think you somehow have to go on... facing the lamb chop and thinking, well, this is my life."

He has written about the dreadful events of his century, but thinks a writer cannot enter in too far. "I mean, the real experience today is the 10 seconds before someone is murdered, in the concentration camps or something like that."

knights – Isaiah Berlin, Stuart Hampshire, though not Francis Bacon who refused everything. "What I'd really like is to be known to have refused a knighthood. I'd like there to be an honours list with in the left-hand column the honours and the right-hand column those who refused." He giggled, and I saw the cheeky Oxford undergraduate behind the old-ladyish face. "It's just vanity, absolute vanity."

Are you going to tell me the best thing about a knighthood is being able to get a table in a restaurant?

"That's exactly what was on my lips." He laughed delightedly.

Spender seems gentle, naive and vulnerable. He is a lot tougher than he looks. I mentioned his string of appointments, especially in the US, and asked: Have you helped create your own worldly success?

"No I'm sure I haven't. No, I've never sought out anything. I really haven't." But later, only half-jokingly, he said: "There's a sort of danger if you don't see your name in the newspaper you think you no



As a poet, Spender has not been prolific – he has written essays, reviews, journals, autobiography and fiction – and some critics say he has written only a handful of great poems. His ambition from the age of 10 was to get one piece into the *Oxford Book of English Verse*. He hopes he will be included in 100 years' time – but for something other than his much-anthologised "The Truly Great."

I said: You've written yourself about your ambivalent sex life. Did you marry and have children in order to get away from the homosexual ghetto and the misery you thought you might have to endure?

"Well, perhaps," he said cautiously. "I think that every vocation requires some kind of gift, doesn't it? What's rather marvellous today is that there are homosexuals who are sort of gifted for being homosexuals."

Auden, he said, was an example of a homosexual who had no gift for it: he really wanted to be married and would have been a wonderful father.

"I am not really happy living with another man. I just find it a strain."

Of course in the 1930s it was sort of fashionable?

"Yes it was. It was a sort of club. And if you forsook the club they were very annoyed. They felt very let down, especially as it was a club of people who were taking high risks like Mount Everest – more Mount Skiddaw or something." He laughed.

Is living in the 1930s interesting for you, or a struggle?

"I think it's still interesting. Anyhow to be a survivor is to mean that you carry something with you which is of your generation. I feel I do carry something with me which is of my generation and of my friends."

This sense of being part of a continuum is described in *Dolphins*, the new book of poems, where Spender reflects on Samuel Pepys's diaries, and writes:

No, when I read Pepys now, he and his cronies  
Burn from their days and  
through my veins –  
Their acts and passions one  
with those  
Moving through mine!

Is writing, I asked him, an attempt to make sense of life or a prop for life?

"No, it's a way of trying to make sense of life, and trying to do so as clearly as possible. I've always tried to be as clear as I possibly could. It's also a record of experience."

Spender recently started keeping a diary again, not only in order to keep a grip on names and events but to recapture, as he put it, "the feel of things and the sensation of people, the characters."

Even at this stage of life?

"Yes, even at this stage of life. And also I do know rather interesting people."

So you explain life to yourself by writing about it?

"Yes, I do."

And you give yourself a purpose for living as well?

"Well, my purpose for living would be just to do that, I think."

It sounds circular, I said.

"I suppose. But why not?"

And it goes on until you drop off the perch?

"I hope so, yes. I think so. It becomes all one's life, so if one stopped one would drop off the perch."

Do you still suffer from youthful idealism?

"Yes, I think so, yes."

But idealism is about the future. At 85 what kind of idealism can one have?

"At 85," he said immediately, "I think one should express no public opinions because they may involve something such as you'd be prepared to die for – and you're going to die for some other reason. You can't put your life on the line any more, can you?"

"I'm quite clear about that. I don't think I should express any opinions about anything, publicly. Just try to go on writing my work, my thoughts, my diaries."

Aren't you supposed to be the village elder now? To sit in the sun with your hands over the stick and provide a free consultation service for the middle-aged who are trying to run the show?

"Yes, I know. That would be possible in the city state, like Athens, but I don't think old people are in that position now, are they?"

What's the fun of being 85 if you can't hand down wise words?

There was a long pause. Spender was obviously working up a joke. Then he began giggling: "I think the fun of 85," he said, spluttering with mirth, "is that one won't have to live into the next century."

Stephen Spender, a living monument of English letters, is 85 next week. He describes how his idealism has made a compromise with life

The reality of our time is of consciousness participating in its own extinction, being destroyed, you see, in some terrible way.

Poets, he said, had always been aware of moments in which poetry disappeared into "a terrible reality beyond itself." It was what King Lear was about, and why Dr Johnson couldn't read it. "Johnson wanted to stay this side where there is literature. I'm very conscious of doing that."

Spender shows signs of the classic complex of the too-compassionate, silver-spoon socialist. But he has not been entirely passive. Not only did he go to Spain, he instigated Index on Censorship in response to a plea from the Russian dissident Pavel Litvinov.

You have a CBE, I said accusingly, and a knighthood.

"My son was very upset when I accepted. I said all my friends have been made

longer exist."

How do you react to being lionised?

"I suppose one does in a way. The answer is one quite likes to make an entry, you see. On the other hand I am very glad that in England so little is made of all that."

Is it one of the recompenses of the writer's life that people come up to you?

"I like that. I always wanted that. When I was a child I always longed to be famous. Yes, I did really."

He described a recent "scrappy meeting of poets" adding: "All the younger poets received me very sort of politely, nicely and affectionately. I think that's fun, in old age, if one gets a little affection and people are at all grateful and respect you. You don't feel you've altogether deserved it, but you think 'Thank God I've managed to escape universal contempt.' Don't you think?"

Have you ever thought about your obituary?

"No, I dread all that. People are beginning to write my obituaries now." He laughed uneasily. "It's all about your sex life and things like that."

"It seems rather terrible that one can't write a poem without not only one's own life being subject to biography but the lives of unfortunate people who have been concerned with one suddenly dragged into the light."

"Biography can become a form of pornography in fact."

Last week Spender won an injunction to suppress the British publication of *White England Sleeps*, a novel by a homosexual American writer which fictionalised the Jimmy Younger episode in Spender's own life. And his riposte to a recent, unauthorised biography was to lodge a 40-page catalogue of "mistakes" in the British Library.

## Beware of Greeks baring teeth

Michael Thompson-Noel



Michael Thompson-Noel is going round telling people that new papers are medians, doomed to be swept into a ditch as the media future dawns. Perhaps he is right. Everywhere, it is said, newspaper readerships are falling (the young watch TV) and advertising revenues declining with the pssphhh of released air.

But let it not be alleged that Hawks & Handsaws is getting lost in the clouds, dreamily expiring. It is right in there, at the titanium-hard cutting edge of mediaworld. In no way or wit is H&H flummoxed by the latest concepts or sexy media jargon. Communicopia. Global telepresence. Audiotext. Database management. Facsimile-on-demand. Interactivity. Interactivity – based on a merging of traditional newspaper techniques, TV systems, super-computers and telephony – is where H&H is at. I have tried to keep it

secret, but H&H has been fully interactive, sparklingly on-line, for several weeks, part of a study being conducted by MIT and some nerds in Silicon Valley.

My working day is lengthening. Readers are talking back. Even minor characters mentioned only hurriedly are getting on to me in real time. Yesterday I was tapping away when the story suddenly filed itself into the T-Noel basket and the face of Georgios the biker flashed on to my screen from a mobile TV studio stationed, he explained, in the village of Phigaleia, Greece.

Georgios the biker made a two-line appearance in a book review of mine in last Saturday's FT. He had made a longer appearance in the book under review: *The Pan Principle*, Fiona Pitt-Kethley's account of travels in Greece, looking for traces of Pan. She did not find Pan, but she found plenty of Greeks, with some of whom she enjoyed, as the review drily noted,

congressional episodes.

One of these episodes was with Georgios the biker. It was not satisfactory. Georgios proved a thing, and bit Pitt-Kethley violently, through the silk of her jersey. Two crescents of bruising lasted

**HAWKS & HANDSAWS**

a week.

Note he was on my screen. Georgios the biker. Speaking to me in real time. Not a happy man. Reasonably good-looking. Hair round his collar. Forehead invisible. Virile, no doubt.

I asked, rather sharply: "What do you want, Georgios?" I assumed he would berate me about his appearance in the book review, or even in the book. But that was not why he was

calling.

"Sure I picked her up," he said, referring to Pitt-Kethley. "What a silly woman. I expect the book was boring. But what I'm calling to ask is why you so hate foreigners. French, German, Greek. Especially you hate the Greek. On 16/1/94 you wrote about the Elgin Marbles. You joked about the Marbles, and about Macedonia."

"You knew what you were doing. Just stirring up. Hateful. Insulting. Who you think you are? On 18/12/93 you were rude about the French. Arrogant, you called them. Described a row in Paris in which you shouted at a Frenchman because he nearly hit your Rover with his 'lemon-coloured' Citroën – I bet you make that up – and did not speak the English. Said the French were stupid, and should all learn to speak the English. More stirring-up. Gratulations. Twerpish. Why you bother to do it? Maybe I bite you."

"Look, Georgios," I said.

"You have to allow for artistic licence. On 29/1/94 I appeared to be rude about people who live in Kent, part of southern England. I was discussing the Channel Tunnel, and its high-speed rail connection between London and the coast. Many people in Kent are angry with the route of this rail-line. So I said: 'People who live in Kent are a selfish and common sort, so they can shut up.' But of course I did not mean that."

"You have to distinguish, Georgios, between the surface meaning of the words and the meaning underneath. In pretending to write rudely about people who live in Kent, I was really expressing my admiration for the Channel Tunnel, and for all feats of macro-engineering, which I happen to find exciting. For example, the Parthenon and its Marbles."

Unfortunately, mention of the Marbles triggered a stormy reaction in Georgios the biker. His black brows knitted furiously. Spitfire shot at my screen.

"I'll catch you," he screamed. "And then I'll really bite you."

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